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Papers read at the All-India Commerce Conference, 1947, held under the auspices of the Lucknow University on December 25-27 1947

PREFACE

This book contains the papers read at the All-India Commerce (1947) Conference held under the auspices of the Lucknow University on December 25-27, 1947. These papers deal with the following subjects :—

1. The Indian Taxation Policy.
2. The Planning of India's Foreign Trade.
3. The Abolition of Zamindari.
4. The Indian Railway Transport.

The Association intended to start its own Journal entitled *Indian Journal of Commerce*, but this could not be done on account of the Paper Control Economy Order. These papers are, therefore, being brought out in the present shape, in place of being published in the Conference Number of our *Journal*. We have, however, every hope that the Government of India will kindly give us the permission to publish our *Journal* at an early date.

On account of the irregular receipt of papers from their authors, they could not be printed subject-wise. But the contents have been arranged subject-wise to facilitate reference.

A. N. AGARWALA
Secretary, All-India Commerce Association.

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The objects of the All-India Commerce Association are to bring together Indian industrialists and businessmen, University professors and teachers, and others interested in the commercial development of India with a view to organize and encourage studies, researches and discussions of problems of commercial and industrial importance, in various ways. The Association intends to start a quarterly Journal very shortly. The Association holds an annual Conference in December where subjects specially scheduled for the purpose are discussed. The membership fee is at present Rs. 6 per annum but when the Journal is started it will be raised to Rs. 12. Application for membership may be sent to A. N. Agarwala, Esq., Secretary, The University, Allahabad.

ABOLITION OF ZAMINDARI.

BY RAJENDRA K. BANSAL M. COM.

With the assumption of power by the Congress governments both at the centre and in the provinces, abolition of Zamindari has become the cry of the day. Province after province has been passing resolutions to cut short the days of Zamindars. The Zamindari system being one of the most outstanding features of our agricultural organisation, it is of utmost importance to us to study the pros and cons of the abolition of the system from a strictly economic angle at high acedamic level.

In deciding whether or not to abolish Zamindari, many people in our country have been led astray by a historical approach to the problem. Thus whereas Zamindars and their friends have been tracing their ownership of land to times immemorial, their opponents have tried to prove that they became its proprietors only as late as under the rule of the East India Company. Now apart from the academic interest of the controversy, it is not clear what practical utility it has for solving the immediate problem in hand. We must decide upon the continuance or otherwise of the system on its present merits and demerits and the possibilities of reforms in it. The fact whether the proprietory right in land was vested in the great-great-grand-father of the present Zamindar or in his ancestor of the 20th degree, does not make any difference to the real problem before us. *The historical approach is quite irrational and out-of-place; and we must concentrate our attention on the present merits and demerits of the system.*

We shall therefore study in short the various criticisms that have generally been levelled against

the Zamindari system and also examine them carefully.

The first criticism of the system is that it is a very costly machinery for the collection of rents from the tenants, since the Zamindar appropriates to himself about 50 to 55% of the rent paid by cultivators, and if Zamindaris are abolished the government shall have more revenues from land. Now, there are no statistics to prove how much net annual income do our Zamindars have. But we can risk a rough estimate. On the basis that the average amount of land revenue in the U. P. during the years 1925-35 works out at Rs. 6,33,55,400 and it is 45% of the actual rent paid by the cultivators, the gross income of the Zamindars in the U.P., should be about Rs. 775 lakhs. Now the cost of collection, according to experts, works out between 5 to 10% of the actual rent paid by the farmer. Since it is a well known fact that government machinery is necessarily more costly than private machinery, the cost of collection to the Government cannot be less than 10%* in any case. Thus if the U. P. Government itself collects the rents, the increase in its revenue will be Rs. 775 minus Rs. 145 laks (for cost of collection) i e. Rs. 630 lakhs. But if the Zamindaris are abolished, the Government shall have to pay compensation to the Zamindars. Even if it pays compensation at the rate of 15 times† the land revenue paid by the Zamindars, it will have to take a loan of about

* Dr. Syed Mahmud, Minister Development & Transport Behar, in his article "Abolition of Zamindari—What Next ?" in 'Commerce' of August 9, 1947; himself admits that "it is a common experience that whatever schemes are launched by Government the greater part of the fund alloted for such schemes goes towards meeting the cost of administration and only a small fraction of it reaches the actual beneficiaries, viz, the villagers."

† This rate of compensation is the very minimum which must be paid. A person who at present is earning say Rs. 55 per annum from Zamindari will according to the above formula be entitled to a compensation of Rs. 675 (45 X 15), if we take land revenue to be equal 45 per cent of the gross rents collected by him. Rs. 675 at 4 per cent will bring him an income of Rs. 27 only. This means that his income will suddenly drop from Rs. 55 to Rs. 27.

Rs. 9,525 lakhs for U.P. alone. Even if this loan can be raised at 4%* and the entire surplus income is used for the redemption of the debt, it will take 25 years to redeem the entire debt of Rs 9,525 lakhs. Thus there shall be absolutely no increase in the income from land for such a long period. This makes the case for the abolition of Zamindari less strong than what it appear to be at first thought.

A second important criticism of the Zamindari system is that it has resulted in inequalities of assessment having no relation to the productive capacity of land; and also that there is a lot of rack-renting in Zamindari areas ; and if the government takes over the land, rents can be reduced to a certain extent. Now we have seen above that financially the government will gain little by abolishing Zamindaris. So it is doubtful whether it will be able to reduce the rents even if it wishes to. But apart from it, the facts of the case do not seem to warrant any necessity for reduction of rentals. The Sind Government in reply to a questionaire issued by the Woodhead Commission stated that rack-renting is not a possiblity in their province. The U. P. government in reply to the same question said that rents have been "modified to a fair pitch" as a result of settlement operations and that tenancy legislation provides a fairly effective control against rack-renting of tenants. The Land Revenue Commission of Bengal reported

This basis of 15 times the land revenue has also been recommended by the Floud Commission, although when landlordism was abolished in the Czechoslovakian Republic the basis of compensation taken was to assess the value of land at the average price current from 1913 to 1915 in the sale of all estates exceeding 100 hectares.

* I have taken 4 per cent rate of interest because in my opinion when the Government launches a policy of raising hundreds of thousands of crores of rupees for abolishing zamindari and implementing the post-war reconstruction schemes it will be very difficult for it to maintain the present rate of interest. The Land Revenue Commission of Bengal has also made calculations for Bengal on the basis of 4 per cent interest rate. In Turkey, a law was passed in June, 1945, providing land to farmers under which expropriated owners will be paid compensation in 20 equal instalments in the form of Treasury Bonds called "Soil Bonds"; and there also the rate of interest allowed is 4 per cent.

in 1940 that "*there would be justification for enhancements rather than reduction of rents in Bengal.*" In view of these statements made mostly in connection with Zamindari provinces, the demand for the abolition of Zamindari on the score of rack-renting falls to the ground.

Zamindars are also critisized on the score that they are parasites living on the blood of the peasantry ; and are enjoying unearned incomes. Now if we want to abolish Zamindaris on this score, why should not we simultaneously pass a law abolishing the holding of city property and charging of interest on shares and debentures of public companies and various government and semi-government institutions, because all these give rise to unearned incomes ?

A fourth important criticism of the Zamindars is that they have not made any improvement in agricultural organisation, have not maintained irrigation facilities, and have been instrumental in the sub-division and fragmentation of agricultural holdings. Now whereas it is true that apart from isolated instances here and there, Zamindars have not taken any active part in agricultural improvement, it would be unfair to lay the blame of each and every defect at their doors. Indeed, it would be defying commonsense to expect the Zamindar to build canals. He could only build wells. But even that was never made his legal responsibility by the government. As a matter of fact, provision of adequate irrigation facilities in a country like India should be what Adam Smith called the 'irreducible minimum of state functions'. And indeed it is the government who should be blamed for neglect in this respect.

As to the evil of sub-division and fragmentation, the Zamindar cannot be held responsible for it, as is proved by the fact that in Bengal (Permanent Settle-

ment) the average holding according to Woodhead Commission is 4·4 acres, in U.P. (Temporary Settlement) it is 6 acres, in Madras (Ryotwari Province) it is 4·5 acres and in Punjab it is 10 acres. *Thus under all the systems of land tenures small holdings are the rule* and the Zamindar does not seem to be responsible for the evil. This evil is due to laws of inheritance and lack of industrial development in the country.

As for the consolidation of holdings the experiment has been more successful in the Punjab than in any other province. The U. P. and C. P. come next in order of importance for the success of this experiment and both of them are Zamindari provinces. It thus shows that given proper opportunities and guidance, Zamindars can be very useful in carrying out such schemes. We might in this respect follow the example of Roumania where all properties of less than two hectares were declared indivisible.

The Zamindar is also condemned as a hindrance in the way of government establishing a direct and close contact with agriculturists with a view to help them. Now this criticism smacks too much of the saying "Give the dog a bad name and kill him." If the government really wants to establish a close cantact with agriculturists, it can easily do so with the help of Patwaris and Tehsildars and the whole host of the officials of the Revenue Department. How can the Zamindar hinder them in this respect ? Why should not the Government be able to make the Co-operative Department more efficient ? If it shows some practical sense, they will find the Zamindars very helpful in making co-operative schemes more successful. Dr. Syed Mahmud, Minister in Behar, has himself admitted that "the reorganisation of the rural economy will be speeded up if we can enlist this class (Zamindars) as leaders of the movement and turn to good account their adminis-

trative capacity till the rank and file in the village gain more experience in the art of self-government and business management."

Still another criticism advanced by the champions of abolition is that the complexities of the system have led to an immense volume of harrasing of, and litigation between, tenants and landlords and also that the latter take illegal monies and Begars etc. from the former. Now whereas the first part of the argument is correct, the second part has lost much of its force recently. Now the Zamindar cannot take illegal monies and Begar from the tenants. Moreover, all the harassing etc. is due not to any inherent defect in the Zamindari system ; but to the illiteracy and ignorance of cultivators. . The Patwaries and Kanungos trouble tenants even more than Zamindars and their Karindas do. So Zamindari or no Zamindari, this states of affairs must continue until tenants are properly educated and a system is devised whereby they can cheaply and readily get redress of any wrong committeed to them.

We have thus seen that most of the criticisms levelled against the Zamindari system are not in fact so sound as they appear to be at first thought. As a matter of fact it is by a process of constant repetition that we have come to believe every defect of Indian agriculture to be due to the pevalence of the Zamindari system.

Not only that, there are some very important reasons why the Zamindari system should not be abolished. Of these, the financial implications of abolition are the most important. The Floud Commission has estimated that on the basis of 15 times the land revenue paid by the Zamindars, the compensation payable to them in Bengal alone would amount to Rs. 137 crores and if it is raised at 4% interest rate, the additional revenue accruing

to the Government as a result of acquisition would be just sufficient to discharge the debt in 60 years. I have estimated above, the cost of acquisition for the U. P. to be roughly Rs. 95 crores on the basis of 15 times the land revenue. Similar calculations can be made for other provinces as well. Now if our governments launch a policy of raising hundreds of crores of rupees for the purpose of abolishing Zamindari alone, what, it may be asked, shall be the fate of so many post-war reconstruction and construction schemes which themselves require billions of Rupees for their fulfilment? Shall they not then be doomed to fail for the simple reason that there shall not be sufficient money available to carry out those schemes? Paucity of funds has already become a headache to our economists and politicians and the advisability of spending such huge amounts of money on Zamindari abolition alone is very questionable at this stage.

Another serious consequence of abolition will be the problem of finding suitable avenues of employment for the displaced Zamindars. The government are already finding it difficult to give employment to the refugees from Pakistan and their ability to create employment for the large number of displaced Zamindars is very doubtful at least in the near future.

Thus we have seen that abolition of Zamindari is not a desirable step at the present moment. Replacement of Zamindari by the Ryotwari system will not do because the economic condition of the peasant in Ryotwari areas is not far different from that in Zamindari areas. "Fragmentation of holdings, inefficient farming methods, heavy rural indebtedness and low standard of living characterise the rural economy of Ryotwari and Zamindari areas alike."

But the above does not mean that the present state of affairs is satisfactory. Far from it, there is need for for radical reform in it. But

abolition will not do. I therefore set below some of the lines on which reforms should be carried out.

The central problem before us is to increase agricultural production and to improve the lot of our teeming millions. For this we must remove the defects of our agricultural system. We must, for instance, make an intensive drive for consolidation of holdings, and if it is found that anybody is unreasonably hindering the movement, the land should be compulsorily consolidated by law. Sub-division of land below a certain minimum (say 10 acres) should be prohibited by law.

Above all, the co-operative movement must be made more popular. The rural community should now be organised as a co-operative organisation of peasants and Zamindars with a view to promote the common objective of maximising agricultural efficiency and of raising their standard of living. The movement has not become popular up to this time because there is an air of officialdom about it. It has been super-imposed upon the rank and file and its officers have not the understanding of and sympathy with farmers. But if Zamindars can be made to take interest in it and it is properly adopted to the local circumstances, the movement is bound to be as popular in India as in other countries.

Zamindars can also help the government in improving the agricultural technique. The demonstration farms run by the Agricultural Departments to demonstrate the new technique to farmers have not been able to create confidence in them for one simple reason. In spite of all facilities, these farms are actually running at a loss. The reason is that the government cannot manage them properly. So if the government gives some help to Zamindars and asks them to run demonstration farms, it shall go a long way in making our farmers adopt the new agricultural technique.

Enquiries should also be made into cases of rack-renting and wherever evidence is found of it, the rents should be compulsorily scaled down.

Arrangements must be made to impart general and technical education to farmers; and the administrative and legal machinery must be made more efficient and cheap. That will go a long way in solving the problem of harassment of agriculturists and the taking of forced labour by Zamindars as well as officials of the Revenue Department.

For increasing the share of income of the Government from land, the rate of land revenue may be increased. Instead of the present rate of 45% as is the case in the U. P., it may now charge, say 75% of the rent paid by the farmers. In U. P., alone this will mean an increase of about Rs. 405 lakh per annum in the government income. We have seen above that if Zamindaris are abolished there shall be no increase in government income for 25 years ; after which period the increase will be Rs. 630 lakhs per annum. Is not an immediate increase of Rs. 405 lakhs favourably comparable with an increase of Rs. 630 lakhs 25 years hence, especially when the former avoids and the latter involves such revolutionary steps as the forcible liquidation of the property of a large class of people ?

Moreover, Agricultural Income-tax should be immediately levied. This can easily increase the income of all the provincial governments combined by about 5 to 7 crores of rupees per annum, and will also make the burden of taxation more evenly distributed.

So much for the improvement in the financial postion of the governments. But, then, the government must also undertake some additional duties and responsibilities. We have seen above the necessity of interesting Zamindars in the agri-

cultural affairs. But before Zamindars can be induced to take all this interest, suitable conditions must be created for them in villages. Our villages must be made more clean and tidy. Facilities of education and recreation must be provided there. Not only that, electricity must reach our villages, so that some small-scale industries may be started there. Proper pucca roads must be built to connect villages with cities. When all these bare necessities of a modern cultured life have been provided in villages, our educated classes and Zamindars are bound to take interest in the village life and we shall never again have the necessity to think in terms of Abolition of Zamindari.

ABOLITION OF ZAMINDARI

By K. K. SHARMA, M A., B. Com.,

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The question of abolishing zamindari is no longer controversial today, It is now a settled policy of the provincial governments. The governments of U. P., Madras, Bengal, and C. P. have decided to abolish zamindari and bills are pending before their legislatures in this connection. The implications of the abolition of zamindari must be understood in clear perspective in order that the new land system evolved after abolition may promote the best interests of the cultivators and the country at large. During the last 150 years or so that the system has been in force, it has not promoted amicable relations between the Zamindar and the cultivator. On the other hand, it has led to the evils of Absentee Landlordism in which the tenant has been rack-rented and agriculture has suffered. It is true that the system had its admirers like the late Mr. R. C. Dutta who belived that the permanent zamindari system in Bengal had saved that province from famines for over a hundred years; but whatever its utilities may have been in the past, it may be said that it has created friction between the land-owner and the tenant and led to the deterioration in relationship between them. Under the system, the income from land does not go back to enrich the soil with the consequence that cultivation suffers. The system was introduced to enable the State to collect land revenue in an economical manner; but when the provincial governments are entrusted with the administration of nation building department, it is necessary to see that income from land does not go to a class whose functions may not be justifiable from an economic point of view.

One of the important items of programme of the election manifesto of the Congress party was improvement in the conditions of the cultivators. This requires fundamental reforms in the land system, one of which is the abolition of zamindari. The popular ministries have consequently taken up the question in right earnest and steps are being taken to abolish zamindari and substitute in its place a more suitable system under which agriculture will be improved as also the economic condition of the cultivators. The main questions that arise in this connection are (1) what system should be introduced in place of zamindari? (2) what amount of compensation should be paid to the disposed land-owners? and (3) what steps should be taken to resettle the dispossessed land-owner to enable him to earn a decent livelihood?

The zamindari system should be substituted by some better system which may improve Indian agriculture and at the same time which may give inducement to the cultivator to increase the yield of agricultural industry. Three main systems can be considered in this connection, namely, the introduction of collectivisation, cooperative farming and peasant proprietorship. Collectivisation has been tried in Russia and it is reported to be very successful there. Under this system, the ownership vests in public authorities and the cultivators are more or less labourers. The system is a negation of private property system. It should be remembered that in Russia, there is no private property system in the means of production. Conditions being entirely different in India, the introduction of the system will not promote efficient cultivation. The cultivator will regard its introduction as expropriation. It will also not be proper to abolish private property in land while leaving it intact in other means of production. After careful consideration an economist of the eminence of Dr. R. K. Mukerji comes to the conclusion that the introduction of this

system will not be suitable for Indian conditions*. Hence the introduction of collective farming does not seem to be conducive to the best interests of our country. The illiterate peasant's love of property is a strong factor to be reckoned with. In Russia also the success of collectivisation has been rendered possible because of the absence of private ownership of land in that country. Even Stalin has made it clear that where there is private ownership of land, great circumspection is needed†. It may, however, be possible to start collectivisation as an experimental measure, in the case of land termed as cultivable waste. More than hundred million acres of land have been marked as cultivable waste today. It may not be possible for the small peasant to bring it under the plough. A large part, if not whole of it, may be collectivised as an experimental measure, but here also sentiments of the cultivator must be respected.

The other system is the introduction of cooperative farming. In this connection, we may say that cooperation has not made adequate progress in our country. It is not, therefore, possible to say at this stage to what extent the introduction of cooperative farming will be a better substitute for the zamindari system. Here also it may be pointed out that abolition of private ownership in land will be an indispensable thing; for land then will belong to the cooperative societies. Of course, under the cooperative system the members will control the society, but it will imply abolition of personal rights of ownership in land unless it is merely a case of cooperative cultivation with individual ownership in land. That will not, however, be cooperative farming in the strict sense of the term. At best, we can say that cooperative farming may be tried in selected places in every province, and, if found

* See, Land Problems of India, page 86.

† Quoted by P. N. Driver, The Indian Journal of Agricultural Economics, August 1947, page 120.

successful, its extension to other areas may be considered.

We, therefore, come to the conclusion that peasant proprietorship will be the most suitable substitute for the zamindari system. It will be consistent with traditions and sentiments in India. It will also maintain private property system intact in land. At the same time, it will give full rights to the cultivator so as to inspire enthusiasm and confidence in him that the fruits of his labour will be utilised entirely for his own benefit. This will require the constitution of economic holdings to give the full ownership of land to the tenants. Agricultural holdings in India will not promote the best interests either of the country or of the cultivator as they exist today. In the interest of good cultivation the size of minimum holding will have to be fixed, and, futher, the question of giving the quality of impartibility to these holdings will be seriously considered. The outlook of the peasant will have to be improved, for it is a well known fact that in India even in areas where peasant proprietorship system prevails, agricultural yield has not increased and agriculture has not been carried on a surplus economy basis. The peasant, in other words, will have to be educated in respect of the proper methods of carrying on agriculture as a business proposition. However, improvements in agricultural finance will have to be made so that the cultivator may be in a position to purchase the land from the zamindar on payment of adequate compensation. Financial machinery will have to be created to make loans to him at a very low rate of interest, recoverable over a long period of time, may be over 30 years, as is the case in other countries of the world.

It may be pointed out that land reforms carried on in western countries in the depression period of the thirties led to the creation and extension of

peasant holdings in European countries. This was facilitated through the intervention of the State by providing cheap finance. A study of the land tenure system in England shows that under the Acts of 1907, 1919, and 1926, peasant holdings or small holdings were encouraged. Facilities were provided to small holders to purchase land at reasonable prices and to make payment in instalments. The provision of loans at low rates of interest will have to be made in order to help the cultivator to acquire ownership of land. We may point out here that in England the Agricultural Land Mortgage Corporation provides long term loans repayable over a maximum period of 60 years at about 4 per cent. rate of interest. These loans are chiefly intended to promote the development of small holdings and to encourage land improvements and irrigation. In Newzealand, in 1933, the Bank of Newzealand opened a special department to provide long term credit to the cultivators. It paid 7½ per cent. interest on debentures but charged only 6½ per cent. per annum from the cultivators. This loss was more than made good by getting the other business of the borrowing farmers for the Bank which would have gone elsewhere.* The Land Ministry in South Africa lends money to settlers for purchasing and improving land and money is recovered over a period of 40 years In Egypt, the Agricultural Mortgage Credit institutions supply long term mortgage loans to small landowners at low rates of interest. In India also, facilities will have to be given to the cultivators to acquire land on reasonable conditions. The introduction of peasant farming will require that the size of minimum and maximum holdings will have to be fixed. Nobody should own less than a certain number of acres and also more than a certain number of acres in order that agricultural land ownership may be

* Qureshi, "State Banks for India."

equitably distributed, consistent with economy and efficiency. The minima and maxima will naturally vary from province to province and from place to place; but that will have to be done in the interest of good cultivation.

This brings us to the question of the payment of equitable compensation to the dispossessed land-owner. This question is important because of its financial and other implications. Socialists point out that no compensation should be paid because according to them the zamindars have not the real claim to the land and they have got great benefits from the land in the past. Moreover, the payment of compensation will be a heavy burden. It is true that illegal exactions are made by zamindars in many parts of India. According to Prof. Radha Kamal Mukerji the original amount for which the settlement was made in Bengal was slightly over crores of rupees, whereas the zamindars obtained from the cultivators as much as 10½ crores of rupees.† The compensation question may not be dispensed with in that manner, and, even on grounds of bare justice, we cannot ignore the case of those landowners who acquired land on payment. Consequently, the abolition of zamindari on payment of compensation is also a settled and accepted fact. The question, therefore, centres on the amount of compensation to be paid. There are many views on this point: namely, compensation according to market value. according to cost of collection, according to a certain percentage of present total rent collection, according to a certain multiple of the net profits of the zamindars from their land and according to a certain multiple of the legitimate share of the profits of zamindars. The payment of compensation with reference to the market value is out of question. It will be too burdensome to be paid by the purchaser of land. A reasonable scheme of

† Land Problems of India, page 305.

compensation will be to base it on the net income retained by the landowner for his own purpose. The landowner gets rent from the tenants. He pays a portion of it as land revenue to the State. Roughly speaking, the amount retained by him comes to 50 per cent. The landowner may be paid 20 times this amount. Thus according to the U. P. budget statement for 1947-48, the income from land revenue is estimated at Rs. 6,58,00,000. Twenty times of it will come to about Rs. 130 crores. Thus to liquidate zamindari in the U.P. about Rs. 130 crores will have to be paid as compensation, if this is to be accepted. Apparently, it appears to be a very heavy amount, but it will not be so taking into view the number of cultivators or proprietors who will be called upon to pay the amount. Of course, it will not be possible for the cultivators to pay the amount in one lump sum. It is not possible to reconcile these two apparently contradictory and divergent points of view. The proprietor will acquire landed property with full rights. He should be asked to become a member of a land mortgage bank of his locality which will be subsidised, if necessary, by the State. This land will be mortgaged with the land mortgage bank which will make the payment to the landowner in one lump sum. Loans will be advanced or should be advanced at low rates of interest for long periods of time to the cultivator. They will be realised from the cultivator in instalments spreading over 30 to 40 years. Such land mortgage banks will obtain the bulk of their funds by floating debentures which will have to be guaranteed with regard to repayment and interest by provincial governments. If necessary, the latter may also have to purchase these debentures. Some provincial governments in the past have purchased the debentures of provincial land mortgage banks. They will also have to be declared trustee securities and they will have to be issued by some central land mortgage institution. They

should also be acceptable to the Reserve Bank of India as securities for granting loans under the provisions of section 17 (4 (A). In these circumstances, they will acquire easy marketability. It will not be difficult for land mortgage banks to obtain funds in this manner. It is likely that the landowners themselves may be willing to invest their funds in these debentures.

Ways and means will also have to be found to provide sufficient economic security to the dispossessed landowner. A plan will have to be prepared under which means of livelihood will be indicated for them. The possibilities of the starting of certain industries in various localities will have to be explored. These questions should be examined by committees of experts in different provinces which have already been appointed, but the question of payment of compensation must be decided by committees consisting of the representatives of government, landowners, financial experts and economists.

These are the implications of the abolition of zamindari in our country. They are of great importance. The abolition of zamindari is demanded in the best interests of the country. It must become an important feature of planned agriculture in future. It will promote the good of the country only if the bearings of these questions are properly appraised and given effect to.

ABOLITION OF ZAMINDARI SYSTEM

By M. H. VASWANI

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Several provincial governments have brought in their legislative bodies bills for the abolition of zamindari system. The Congress is committed to the proposition that the zamindari system should be abolished by paying reasonable compensation to the owners of land. The Congress manifesto at the time of 1945-46 elections laid emphasis on the need of agrarian legislation and converting zamindaris into ryotwari lands as far as possible The Sub-Committee of the All-India Planning Committee have emphasised in their report on land revenue reform the desirability of making radical changes in the land revenue system and urge that absentee landlords must go. Acting on this Report, the Madras Government announced that they would introduce a comprehensive bill aiming at the abolition of the zamindari system. The U. P. Government introduced a bill for the same purpose. Mr. Suhrawardy, while Premier of Bengal, pioneered such legislation in Bengal by means of the Bengal State Acquisition and Tenancy Bill last April by which the old permanent land settlement of Bengal was to be abolished and the ryotwari system introduced. The bill has not been passed for want of time. Nevertheless both the East and West Bengal Governments are to proceed with the same legislation as the Congress in West Bengal and the League in East Bengal are committed to it. The provinces of the U. P., Bihar and C. P. are very anxious to get through this legislation. The Bihar Bill has passed the first reading and is at the Committee stage.

Legislation for the abolition of the zamindari system has created a flutter in the dovecotes of

zamindars, jagirdars and taluqdars as they are not prepared to give up their unearned income without a fight in case they are asked to quit. The two most objectionable features in the zamindari system are the existence of the parasitical class of absentee landlords who take no direct share of interest in the cultivation of land, and, secondly, the growth of a number of intermediaries between the zamindar and the actual tiller of the soil. The big zamindar plays no important part in the economy of rural life. He is only a parasite living on the blood of the peasantry. The problem of absentee landlordism is coming to the forefront. Absentee landlordism is growing everywhere. It leads to inefficient management and ruin of farming in the long run. There is an increase of non-cultivating landowners everywhere, even in the strongholds of cultivating proprietorship. This encroachment of landlordism has brought in its wake all the evils of spendthrift and inequitous land management. The increase in subinfeudation has created an army of rent receivers who are all supported by the labour of the cultivator. It has become an incubus on the working agricultural population which finds no justification in the performance of any material service, so far as agricultural improvements are concerned, and fails to provide for any effective means for the development of the resources of the land. Along with this growth of sub infeudation there is progressive fragmentation of proprietary interests in the land due to laws of succession and this results in increasing the complexity of the land system. Modern landlordism in India is a vested interest, like the survival of feudalism in the eighteenth century Europe. In India, it is not so much the survival of earlier institutions as a product of mistaken legislation. During the Hindu period, the zamindari system was not much in vogue. It is the Muslim kings who gave away jagirs and created an army of zamindars. The zamindar was originally a collector of revenue

In earlier times, his office was not hereditary. Later on, it tended to become hereditary as the control of the central government relaxed. The tax-collector gradually consolidated his position by taking full advantage of the political disorganisation before the advent of the British rule and of the special opportunities for self-aggrandisement which it held out to him. He pretended to be proprietor of his charge by first of all cultivating the large waste area in addition to his own land, and later on buying out small neighbouring cultivators by means, fair and foul. When the East India Company was granted the Dewani of Bengal in 1765, it was faced with the problem of discovering a satisfactory method of revenue collection. On account of the Company's preoccupation with wars, entire absence of maps and reliable records regarding land and its rent and its rights, as well as want of a suitable machinery to collect revenue and difficulties of communications, the Company, instead of undertaking the collection work itself, decided to make use of the services of the already existing revenue collectors for this purpose, and vested them with proprietary rights in land, rights which they had never possessed throughout history. It thus happened that by the time of Lord Cornwallis, the revenue farmers and collectors of revenue had evolved into a powerful body, hardly distinguishable from full proprietors.

Apart from the fact that ethically most of the zamindars have no right to claim their land, they have neglected their duties towards the ryots, done very little towards the improvement of the land and contributed by their indifference and neglect to the growing impoverishment of the agricultural classes. The peasantry to day is caught within the pincers of rack renting on the one hand and mounting debts on the other. This will cause a serious threat to social and economic stability, which may, at any time, burst into revolution. The zamindar is a fifth wheel to the coach. In order to improve agriculture,

the zamindari system must go. The Simon, the Floud and the Woodhead Commissions have all recommended the abolition of the zamindari system in India and many Congress provinces have legislation prepared for this purpose. A majority of the Floud Commission, after pointing out the defects of the zamindari system, specially where there is permanent settlement, expressed themselves in favour of abolishing the system. They pointed out that (1) it has deprived government of the share in the increment of the value of land due to increase in population and extension of cultivation in areas of permanent settlement ; (2) it has involved government in the loss of revenue from minerals and fisheries ; (3) it has deprived government of intimate knowledge of rural conditions such as ryotwari system affords ; (4) it has imposed on the country an iron framework which has had the effects of stifling initiative and enterprise of all classes, and (5) it has encouraged an excessive amount of sub-infeudation, creating a number of intermediate interests between the zamindar and the actual cultivator which in some districts has reached fantastic proportions. They quote in their support the memorandum of Government of India on the land revenue policy in 1902. The memorandum referred to the "evils of absenteeism, of management of estates by unsympathetic agents and unhappy relations between landlord and tenants and of the multiplication of tenure holders or middlemen between the zamindar and the cultivator." The mojority of the Floud Commission were definitely of the opinion that "no other solution than state acquisition will be adequate to remedy the defects of the present land system." They maintain that the permanent settlement and the zamindari system should be replaced by a ryotwari system.

While abolition of the zamindari system is almost universally favoured, several difficulties stand

in the way of which the following may be considered as important :—

(1) the constitutional,

(2) the financial, and

(3) the administrative.

The first relates to the need for the sanction of the Secretary of State, under the Act of 1935. Under the changed political status of India, this difficulty no longer remains. All the provincial governments, whether in India or Pakistan, have now a clean slate to write upon. They new possess full powers to legislate in whatever manner they choose without the restrictions of the government of India Act of 1935 impeding their purpose. The other two difficulties are of a formidable character. Expropriation without compensation is universally regarded as unjustifiable except in a communist state the establishment of which may be regarded as only a remote contingency in India. Difficulties arise with reference to the rate of compensation and the methods of raising finances to pay such compensation. The Congress Planning Sub.Committee urge that the absentee landlord or the parasitic zamindar "must be progressively, if not all at once, eliminated, with or without such a compensation as the state may determine". Compensation does not satisfy zamindars because they are naturally against any such attack on their system. Some big zamindars are threatening bloodshed because they do not want to part with their property. This is an empty threat because government will have the support of millions of actual tillers of soil who can retaliate if zamindars show violence. Landlordism must go, whatever the threats held out by zamindars. Machiavelli has said that a man would sooner forget the death of his relatives than the confiscation of his property. In the case of zamindars it will be confiscation followed by compensation. We may not even use the word

'confiscation' because the land that now belongs to them is not rightfully theirs ; it is theirs as the result of usurpation and wrong legislation. A functionless landlordism stands like a block in our way to progress and prosperity. All proprietary interests and intermediary tenures should be extinguished by payment of compensation.

What should be the rate and extent of compensation ? We have to bear in mind that the zamindars have an annual income ranging from a crore of rupees a year, like the Maharaja of Darbhanga in Bihar, to a few thousand of rupees in Orissa or Madras. The poorer class of expropriated zamindars do deserve a decent compensation to keep the family pot boiling. But the better type are among the richest in India having purchased crores worth of property non-landed), having invested money in industries, shares and stocks, and purchased urban buildings fetching decent returns. They will not starve even if no compensation is paid to them. During the period of war and even at present, zamindars have earned tons of money on account of soaring prices of agricultural produce and food-stuffs. There are left-wing Congress-men who advocate that the bigger zamindars should be expropriated without compensation, they having sucked enough money from the land owned by them and rack-rented their tenants all their life. The Floud Commission in Bengal recommended compensation at fifteen times the net profit which will work upto Rs. 137 crores If this amount is to be paid by a loan at 4% interest, discharge of debt will take nearly 60 years for the provincial government. The financial liability of other provinces will have to be gone into and worked out by special commissions. More or less similarly overwhelming will be the amounts involved to pay compensation, unless the zamindars are persuaded to accept lower rates of compensation, On this ground the Woodhead Commission comes to the conclusion that "from

the financial point of view therefore it seems to us likely that the abolition of the system cannot be carried out within a relatively short time without incurring financial commitments which might seriously restrict the resources of public borrowing available for other urgent schemes of development in the post-war period." Payment of annuities, instead of capitalised compensation, may be tried. This too involves payment in lump sums for small proprietors and the State has to stand guarantee to the annuity payments. These, however, cannot be regarded as hardships in view of the benefits involved. The People's Plan proposes that the State should acquire all middlemen's interests in land above the actual cultivator on payment of compensation at a flat rate for all the interests, the rate of compensation being seven times the net income. As to the form of payment, the People's Plan favours payment in the form of interest-bearing bonds as payment in cash would be difficult. The Floud Commission, however, prefers cash payment. In actual practice, in the bills submitted before legislatures, the Bihar government wants the zamindars to receive compensation of about eight crores of rupees in all by means of bonds bearing 2½ per cent interest. The smaller zamindars will be paid in cash. The income from these zamindaris, when handed over to the ryots or village communities or groups, or when converted into large blocks under tractor cultivation and made to grow more food and money crops under expert supervision, will earn for the government four times the value it has to pay zamindars by way of compensation. In Madras, there are a few big zamindars and plenty of Inam lands which pay less land rent and confer certain privileges on the Inamdars. These lands will all be taken over by the Government and there will be, as far as possible, universal ryotwari system—lands cultivated by small peasants from five to ten acres. The zamindars and Inamdars are to get from twenty-

five thousand to fifteen lakhs of rupees as compensation according to the extent of the holding.

Administrative difficulties are no doubt real but they should not baffle any government with a will to carry out the reform. Revision of the record of rights is an essential preliminary to a scheme of State acquisition and it is bound to take some years. The Bengal Land Revenue Commission expressed the opinion that the work should be undertaken district by district; and as the work in each district is completed and the compensation assessed, loans may be raised for compensation. This method may be adopted in other provinces also.

It should be obvious by now that the abolition of the zamindari system is already overdue. No false excuses of any kind, such as one relating to heavy initial cost required to pay compensation or to the danger of creating a social upheaval, can be allowed to stand in the way of such an essential reform in the country's economic life. It is a good sign, therefore, that some of the provincial legislatures have already adopted resolution accepting the principle of the abolition of the zamindari system. What is however anxiously awaited is the adoption of an actual scheme to end the system once for all The acute food situation in the country has accentuated the need for the acquisition of zamindaris in all the provinces and to put every inch of available land under cultivation. The zamindari system must go and millions of oppressed ryots must be removed from the clutches of jagirdars. Palliatives like tenancy laws cannot remove the evils connected with irresponsible landlordism that has come in existence under the present system. The zamindari system has outlived its usefulness and the sooner it is abolished, the better it is for our country.

RECONSTRUCTION OF THE INDIAN LAND SYSTEM

By R. V. RAO, M. A. B. T.

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It is agreed on all sides that the aim of land reform is the happiness and contentment of Indian peasantry which is the backbone of our economic structure. For the achievement of this ideal, we must have a comprehensive plan of agricultural organisation. After all, in all plans of agricultural reconstruction, we should try to serve the best interests of land and those that serve land. That is why it is argued that we should reconstruct the land system in such a way that the cultivator be comes the holder of his holding. In other words, we should have peasant proprietorship.

In involves a consideration of the problem of land-tenures. 'The system of tenure, that is, the way in which the land is held, determines the persons' responsibility for the payment of land revenue, the rights of cultivators in relation to landlords and the proprietary and sub-proprietary rights in land. We have also got to consider the amount of rent or land revenue. It does not require much argument to show that land tenures may be conducive to an improvement in the utilisation of land or they may discourage cultivation.

The conditions of an ideal land tenure system are fair rent, fixity of tenure and free sale. Under these circumstances, we have to reform the land system, reconstitute the administrative machinery and train the people in taking an adequate interest in the improvement of land. Simultaneously, we

must make provision for diversified occupations so that the surplus population can find employment. It is also necessary that we should educate the masses. We require statesmen who will save the country from the curse of poverty and unemployment. It is a pity that land problem has not received due attention from government with the result that we are confronted by an inefficient exploitive land system which saps initiative, hampers economic progress and leads to inequitable distribution. Many of the evils of Indian agriculture can be traced to the land problem.

In India the main systems of land tenure are the Zamindari system, the Ryotwari system, and the Mahalwari system. The serious mistake which the British committed was to declare the tax-collectors as the full proprietors of the areas over which they had jurisdiction. The assessment was also fixed. The Government did not care to remember that the interests of the cultivators were also to be protected. No attempt was made to protect either the interests of the cultivators or to fix revenue liability on a scientific basis.

The Zamindars under the circumstances became a functionless and parasitic class. It was good the difficulties of having this system became soon apparant and the Ryotwari system in which the cultivator is responsible for the payment of land revenue had to be allowed. The implications of ryotwari system are that the State owns the land and the landlords derive their title directly from the State. There was also a modification of this system, where land was held by village communities and the revenue assessed upon the co-sharers. All these systems contributed to the decline of village economy and steps had to be taken to eliminate the evils. Dr. B. R. Misra rightly observes that "nowhere in the whole land-history of India can a better example be found of how the fate of Indians is bound up with the political upheavals in the

country." The Government sacrificed the interests of the millions to the interests of the few.

There is a consensus of opinion that the agrarian problems of India cannot be solved unless the parasitic land system is abolished and the tillers of the soil have a better status. It is claimed that 75 p. c. of the lands is cultivated by people who have no direct interest in the land and that in some parts of India there are as many as 60 links between the landowner and the agricultural labourers. The landlords have no economic function or jurisdiction. It is not necessary here to refer to the evils of absentee landlordism and exploitation of tenancy which have led to many evils in agricultural sphere. We are, therefore, justified in saying that the land system is inefficient and corrupt. Any serious student of the agricultural economy of India can easily appreciate the need for the reform of the land tenure.

It is really a tragedy that the actual cultivator gets so little out of the produce of land and a small class should get a lion's share The whole thing is the result of historial causes and raises serious issues. At the present time the cultivator has no incentive to use better methods, because he has to share the yield with the land-owner.

It is good the Congress Working Committee directed the Congress Governments in the provinces to abolish the Zamindari system. It is really unthinkable that a few Zamindars should enjoy at the expense of millions of ryots. The Zamindar till now extracted high rent without providing any agricultural facilities. In some provinces, they were charging Rs. 24 per acre on wet land. If plantains or chillies were grown, Rs. 70 to Rs. 80 per acre was charged. In pursuance of the direction of the High Command the C. P. Government decided to eliminate the intermediaries between the State and cultivators. The Bihar Government seeks to take

possession of the Zamindars' agricultural and mineral assets and it appears that compensation is proposed to be paid partly in cash and partly in bonds to be paid over a number of years in instalments. Compensation will range between 5 and 12 times the net rental for agricultutal land. It is also said that compensation will be on a sliding scale which would amount to lesser lesser rates for big Zamindars and higher rates for small landlords. Dr. B. V. Narayanswami suggests bonds bearing 3% interest and equivalent in amount to the value of state. They should be non-transferable. Some Kisan leaders have no doubt opposed the plan to give landlords compensation. The ministry of Bengal and Madras also wish to follow suit.

A highly contentious step like the abolition of the Zamindaris has innumerable pros and cons most of which are familiar in relevant discussion. The inequity of perpetuating large scale absentee landlordism cannot be defended by any side. The State can also get more revenue by abolishing Zamindari The problem is whether the ownership of land should vest the tenant or the State.

It must, however, he kept in mind that if the land problem of India is to be solved, a frontal attack on the whole system is necessary. Revision of the land system should form the first step. One may here note the observation of Mr. R. H. Tawney who observed: "Improvement of agricultural methods is no doubt indespensable but it is idle to preach that doctrine to cultivators so impoverished by exactions of parasite interests that they do not possess resources needed to apply it. In the Europe of the 19th century, the reconstruction of the legal fabric of the land system preceded the modernisation".*

The economic productivity of land as an agent of production depends upon how we deal with the

* Agrarian China, Introduction, page XVIII.

problems. The cultivator should be assured of a reasonable size of holding which will enable him to maintain a reasonable standard of living. The burden of taxation should be in proportion to the yield and also ability to bear At the present time it is inequitable and inelastic. We must also develop subsidiary industries if rural economy is to be put on a sound footing. While these suggestions are made, we must also remember that the State should also take positive steps in the direction of providing suitable facilities in these directions.

While at the present time capitalist transformation of agriculture and nationalisation by collective farming are not possible, it is better for us to start with the minimum. Sir Nanavati and Prof. Anjaria rightly point out, we have to bring about the reconstruction of the land system so as to make the cultivator the owner of his holding and he should be enabled to come into direct contact with the Government. After all, past experience supports peasant proprietorship. The following table shows how bulk of land is directly worked by the owner in several countries :—

Countries.	*Percentage of area under direct cultivation to the total area.*
France ...	60
Germany ...	89
Czechoslovakia	90
Italy. ...	58

This means that agrarian reforms in other countries have proceeded in the direction of creating conditions "so that the owner himself cultivates the land without the intermediaries."

It is a pity that our Government did not take up this question till recently. The Royal Commission on Agriculture was precluded from considering this question. The Land Revenue Commission of Bengal recommended the State purchase

of landlords' interest. In the Zamindari areas, it is better for us to turn our attention from the why of abolition to the how and what next. Tenancy legislation has hitherto failed because the claims of absentee landlords were recognised. It would be better if equitable compensation is paid to the Zamindars when the Zamindaris are abolished. We should fix differential rates between different classes and sizes of a state and circumstances under which land was acquired. The *Eastern Economist* rightly suggested that "while varying and complex rate of compensation would be advisable, landholders could certainly and easily be divided into two or three broad classess and different rates of compensation fixed for each". The policy to be pursued should be uniform in the Congress Provinces. We have also to consider the basis on which a compensation is to be paid. It would be better if the rate of compensation is ten times the net profit. It should neither be so heavy nor so low. It should be such that will enable Zamindar to take to alternative types of employment at an early date; otherwise the social purpose behind the abolition of Zamindaris will be defeated.

Most provincial-governments have already initiated legislation to do away with the intermediaries between the State and the tillers of the soil. The trend of legislation in all provinces reveals that the principle of acquisition on the basis of compensation has been accepted,

While several people argue that abolition of Zamindaries cannot be brought about within a short time, one should accept the plea of Sir Nanavati that it would be better to shorten the period in view of the universal opinion that no measure of agricultural reconstruction can succeed in the stifling boundaries of Zamindaris. A committee of experts should be charged with the task drawing out a formula of compensation. The suggestion that the

legislature should immediately fix the rate of compensation, that the compensation should be paid in ten or fifteen equal instalments and that Judicial Commissioners should apply the law to particular cases is commended. The rents that are collected may be pooled into a fund from which the compensation is to be paid. It is desirable that the Government should pursue a middle course at once ensuring justice and fair-play to the dispossessed and benefit the State and peasant.

The land problem in India is too intricate to be solved by mere legislation. Indeed, we must rehabilitate agriculture so as to supply nourishing food to us. Further, the cultivator should also reap the fruits of his labour. It may at once be said that, when the State becomes the Zamindar, it will not bring about the necessary changes in our agricultural system. This is all the more so because the State come into direct contact with the cultivators. Similarly, the problem of non-zamindari areas where land is passing into non-cultivating groups has to be considered. We can have legislative control of rents, reconstruction of holdings on economic basis making it obligatory on non-cultivating groups to part land to bona fide cultivating groups.

It is a good augury that many of the provincial governments have been considering the land problem. The reform of land tenure and development of rural industries which provide an alternative occupation for the surplus population should go hand in hand. Let us hope that the various provincial governments will consider this problem.

Indeed there are three possible lines of action: (1) Transformation of the land system on the lines of the agrarian revolution of England (2) Reconstruction of the land system so as to make the cultivator the owner of the land ; and (3) Creation of the system of the peasant-proprietorship. At a time when the pressure of population is telling heavily upon our

resources and the Zamindar is exercising a depressing influence on our agriculture, this problem requires very careful handiing.

Thus, the abolition of Zamindari will not by itself solve the task of land reform. It is indeed an integral part of a comprehensive plan of agricultural re-organisation. The Government should also proceed to create economic units and prevent sub-division and fragmentation of holdings. The laws of inheritance have also to be taken into account. In all these matters public opinion should assert itself.

THE ABOLITION OF ZAMINDARI

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1. Since the coming of the British Rule in this country, India has become a predominantly agricultural nation and yet Indian agriculture is in a very backward state, when compared with agriculture in western countries, although very few countries have been faroured by nature in the same way and to the same extent as this country has been. The supply of arable land or land which can be brought under cultivation under scientific methods of cultivation, the appearance of monsoons in some parts twice a year, the supply of water resources and what not, have been very favourable. What are lacking are the hands and brain of man for utilising them for the benefit of the people. In this country very few permanent improvements have been effected in the agrarin economy in contrast with European countries where the greater part of the success of agriculture is due to man-made improvements For fighting the problems of a backward agrarian economy, there are two distinct phases: first, demolition or reorganisation of parts or whole of the existing socio-economic structure, according to the importance and necessity of the case, and second, the introduction of a scientific system of agriculture, based upon foreign researches and experiences and backed by the researches and experiences inside the country and these problems have to be tackled in proper order. Piecemeal efforts have been made for the last one hundred years for fighting against some of these problems but those efforts may be characterised as putting the cart before the horse. For as has already been said the problems are to be tackled in proper order, In a country with subsistence farming, scattered holdings

and the old system of land tenure, any permanent improvement of agriculture is out of question. Scientific agriculture is only possible in a new socio-economic environment where cultivation is carried on a commercial scale on vast plots of land with the cultivator having full incentive to work. This new socio- economic environment has been termed as Agricultural Revolution in westetn countries and it has come in England by force of circumstances in France by the French Revolution, in Germany by Napoleanic invasion, in U. S. A. by by the Civil War and in Russia after the Boleshevik Revolution, which have left a clean slate to begin with in each of these countries. In India nothing of this sort has been possible owing to the preoccupation of the country with vast political changes and the maintenance of status quo by the East India Company which was further ratified by the Queen's Proclamation.

2. Zamindars were a part of the land system of this country from early days and many of them continued after the establishment of British Rule in this country. Apart from these, the officers appointed by the Mughal Emperors for the collection of revenue, who had assumed power after the decline and fall of the Mughal Empire, were confused as Zamindars by the officers of the East India company who were familiar with the feudal system in their own country. The problem before the Company was as to what methods it should follow for the collection of revenue which should be secure, certain and uniform. In this connection the rights and privileges of the Zamindars where considered as their utility as an agency for the collection of revenue was discussed. Permanent Settlement was the outcome in which the Zamindar became the proprietor of the soil, and the actual cultivator was a mere tiller, originally having no proprietory right in land.

3. If under the Permanent Settlement the landlord was the proprietor of the soil, the situation

is no better even in ryotwari areas where a sort of landlordism has come to stay as a result of letting and subletting and the direct conract between the State and the cultivating tenant is thus lost. After the first phase of the British Administration in India was over, the defects of the Permanent Settlement were recognised and a direct settlement with ryots in areas coming under British possession in the 18th Century was arranged for. With the rise in the value of land and consequent letting and subletting, a class of intermediaries have come into existence, with the result that the original holder remains responsible for the payment of land revenue and hence the actual tiller of the soil is not the person who is always assessed by the government. This fact is often overlooked by persons who make a case for the abolition of Zamindari system. If Zamindari system is to be abolished, it should be done both in the permanently settled areas and also in the ryotwari areas, no matter whether the intermediary is an individual landlord or groups of villagers or joint villages.

4. The Financial objectives of the Permanent Settlement were two-fold : first, to safeguard the punctual receipt of land revenue and second, to secure an expansion of cultivation "by giving to all people interested in the land down to the actual cultivator a sense of security based on a well-founded belief that it would be they, and, not their superiors whether the State or the landlord, who would reap the benefit of their industry and enterprise". The immediate objectives of the Permanent Settlement were achieved. The State got regular revenue and there was expansion of cultivation. For the landlord the period commenced disastrously; for, under the terms of the settlement, the Zamindars would not only be responsible for the payment of revenue to government but this payment must be made by a specified date. The Zamindars would pay to the state 10/11th of the rent they would

realise from their tenants and retain for themselves only 1/11th as cost of collection and compensation. The ryot was however most unprotected under this system.

5. With changes in the social, political and economic life, the value of land increased and the unprotected tenants were often ejected. Hence for giving them protection, the Bengal Rent Act of 1859 was passed, which was subsequently amended by the Bengal Tenancy Act of 1885 and the Bengal Act of 1907. After the first great war and, in particular, after the passing of the Government of India Act, 1919, demand became insistent for furthet changes in the tenancy system which were ultimately effected by the Act of 1928. The main provisions of this new amendment related to a recognition of the right of transfer on the part the ryot without any previous consent of the Zamindar to that effect It was however provided that a transfer fee amounting to 20 p. c. of the sale price would be realised by the Zamindar. Another important provision was that when a transfer would be effected, the landlord. would have the right of pre-emption, *i.e* he might have the land himself by paying the sale price plus 10 p. c. as compensation. After the introduction of the Provincial Autonomy in 1937, the demand for further changes in the tenancy system became all the more strong and the Tenancy Amendment Act of 1938 was the result. It removed one of the long-standing grievances of the man behind the plough in so for as it abolished the transfer fee as well as the rights uf pre-emption which was granted to the Zamindars. In this way "the Rent Act of 1859 and the Acts passed in the following 80 years have made the Zamindars mere retainers while the tenants have become practically peasant proprietors subject only to the payment of rent to the Zamindars and taluqdars as the case may be."

6. Although the immediate objectives of Permanent Settlement were achieved, from the long run

interest of the society it proved to be a burden. Financially, revenue has remained inelastic and unearned increment in the value of land has gone into the pockets of the landlord. Thus although in earlier stages some advantages were secured, ultimately the State became the loser owing to the accumulation of unearned increment. The exact extent of the loss is difficult to calculate in money terms; but, for Bengal, according to a rough estimate by the Floud Commission, "the annual loss in this generation resulting from the exactment of Permanent Settlement may be estimated at anything between 2 crores and 8 crores;" and for the country as a whole, it must be several times higher. The social and eeonomic results of Permanent Settlement are mixture of good and evil. On the one hand, it promoted the prosperity of "that class in Bengal which has had leisure for culture and politics, has provided educated men for the professions and government services, and is responsible for all political progress." On the other hand, it has resulted in the appropriation of unearned increment by the Zamindars and has encouraged the growth of subinfeudation thereby resulting in an immense complexity of the revenue system. This evil is the result of the growing gap between fixed revenue and economic rent which has introduced a large number of intermediate interests between the landlord and the actual tiller whose numbet has gone on increasing, while that of the actual tiller has been dwindling. Thus the census figures recorded an increase by 62 p. c. of these intermediate interests between 1921 and 1931. The same is true of landless agriculturists whose number has shown an increase by 49 p. c. during the same period, these people comprising 29 p. c. of our total agricultural population. Sinee then their numbers have increased still further, whereas in case of the cultivating owners a fall has been recorded from 92,74,924 to 60,79,71*l*. This was the direct consequence of the Bengal Famine.

7. When the Floud Commission was investigating into the question of abolition of Permanent Settlement, it evoked a good deal of discussion, some favouring abolition of the Zamindaries while others pointing out that the existing evils are not entirely due to the prevailing system of land tenure. Even the Commission were not unanimous. The majority of the members expressed the view that the defects of the existing system were such that they could not be remedied by mere tinkering with the existing system. They stressed the advantage of the ryotwari system and were of opinion that the cultivators should be brought directly under the State as the sole landlord. The minority however began to sing in a different tune and argued that State acquisition of Zamindaries would be financially hazrdous and economically undesirable. In their opinion, the present economic troubles of the cultivators in Bengal "are unconcerned with the land revenue system. The chief causes of those difficulties are the increasing pressure of population, the Hindu and Muslim laws of inheritance which have resulted in the fragmentation of holdings and the absence of any occupation for the cultivators for the greater part of the year."

8. These are undoubtedly extreme views. But it must be said to the credit of the minority that they have pointed out and emphasized some fundamental problems of our agrarian economy for which the real solution is to be found not so much in mere State acquisition of Zamindaries but in the establishment of a balanced economy in this country, a change in the existing socio-economic structure and also a provision for supplementary earnings for the agriculturists. While admitting that the Zamindari system has become an outworn institution and hence the consensus of opinion is in favour of its abolition, it must at the same time be remembered that a mere substitution of the State in place of the Zamindar will not bring economic Satya

Tuga. For the whole thing must be viewed from the perspective of nationalisation of any other economic interest. Here arise two considerations: first, whether in the existing state of economic development land acquisition by the State will help the maintenance of the same or even higher economic incentive; and second, whether the State will have adequate supply of personnel with which it can make a progressive agricultural programme successful. On the other hand, we cannot agree with the majority of the Floud Commission that the advantages in a ryotwari system are overwhelming; for even in these areas a system of letting and sub-letting has resulted in the appearance of a type of landlordism who enjoy similar unearned increments as those enjoyed by landlords in Zamindari areas. If private landlordism is a curse, the case for State acquisition becomes applicable to the whole country and not to a few regions.

9. At present bills for the abolition of Zamindaries are there before the Bengal, Madras and Bihar Legislatures and there is no doubt that they will become laws very soon. In this way the Provincial Governments are placing on their shoulders heavy responsibilities which henceforth it would not be possible for them to shirk of. I do not mean to say that a modern State should be indifferent to economic matters; what I mean to say is that it should proceed only to that extent upto which it can manage efficiently. Our experience with the control by the State of distribution of supplies is none too encouraging and it has been admitted by those in power that nationalisation at this stage of any economic interest will not result much in economic efficiency. Besides, the Zamindars as at present cannot interfere in any way with the activity of those who hold land from them, except that they collect rent, which henceforth would be done by government officers. As has already been pointed out, the landlord, after the Tenancy Amendment

Act of 1938, is a mere retainer and he has already disposed of his land to the agriculturists who at present are the actual owners. If landless peasantry has increased in number in recent years, the Zamindari system cannot be held responsible for that. Rather, it is the pressure of population on a single occupation and the scarcity of land that are responsible for the present state of affairs.

10. The abolition of Zamindari system all at once will not only be economically unsound at the existing stage of our economic development, it will also be financially a burden on the Provincial Exchequer. Thus the landlords will the paid compensation which will be a burden on the Provincial revenue. The Floud Commission recommended compensation at a flat rate of 10 times the net profit. The Bengal Land Acquisition and Tenancy Bill provides for a graduated scheme of compensation at 15 times for a net income which does not exceed Rs. 2,000, 12 times for income between Rs. 2,000 and 5,000, 10 times for income between Rs. 5,000 and 10,000, and 8 times for income exceeding Rs. 10,000. Similarly in Madras, the total compensation payable to each Zamindar shall range between Rs. 25,000 and Rs. 15,00,000 and total expenditure on this account is calculated not to exceed Rs. 10 crores. While this will be a burden on the State, it will not be much of a relief to the landlord. So far as the State is concerned, the payment of compensation in a single year is out of question and hence either there will be a large body of annuity-holders dependent on government receiving compensation in instalments every year or it will have to be paid in the form of bonds of guranteed face value. So far as the landlord is concerned, whatever the compensation, it will not go a long way to help him in view of two factors, viz., arrears of rent and indebtedness of many landlords. Thus the ex-Revenue Minister of Bengal pointed out that while 212 representative families of landlords intercepted more

than 1/7th of the total rental demand, their average outstanding liabilities were 6 times the annual net income. The position of many other landlords and of the Court of Wards Estates is no better.

11. The abolition of the Zamindari system has become the talk of the day and hence the tide cannot be checked. But a better solution, both from the standpoint of the landlords and of the State, would have been the adoption of a graduated system of agricultural income tax, supplemented by death duties. The former would remove to the coffers of the State a considerable part of the unearned increment while the latter will help the nationalisation of land over three or four generations, without imposing any burden on the State. At the same time the landlords will have sufficient time to adjust themselves to circumstances.

12. There is atother danger in the immediate abolition of the Zamindari system which is fraught with grave social evils. On the one hand, the State acquisition of Zamindari will not result in any reduction or in any considerable reduction of rent. The Madras Bill has envisaged a reduction of rent; but the proposition is not practical. In Bihar, it is expected that the abolition of the Zamindari system will not result in any rent reduction, while the Bengal Bill envisages an increase in rent, over and above the help that would be required from the centre for putting the Bill into action. Not only that; some landlords, at least in Bihar, are trying to place the government in further difficulty by "reducing the cash rental of their ryots so that under the new dispensation to be inaugurated—when the middlemen will be eliminated—the contribution to the government exchequer may to some extent dwindle". This is one side of the picture. On the other side, those Zamindars who have no capital and to whom the compensation will give inadequate relief will swell the ranks of socialists

and communists and create greater chaos in our social and economic life. Some labour leaders are already out for the establishment of the Peasant-Raj in the villages under which estates must vest in the kisans through their village republic. At this stage of our economic development all the controversies regarding the structure will retard progress. Expansion and development on scientific lines should be the only ideal. Agriculture, as the experience in Russia and U. S. A. shows, must be made a large-scale enterprise, but in this respect individual ownership and cultivation with restriction on maximum average to be held by each family will discourage large scale farming. The fundamental problem of our agriculture is not so much this system of land tenure or that—though, of course, the existing system is not perfect and cannot be so—but the surplus population, for which an outlet must be found in the industries.

THE ESTABLISHMENT OF PEASANT PROPRIETORSHIP IN U. P.

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The existing system of land tenure, i.e., the landlord-tenant sysem, which embraces more than four-fifths of the cultivated soil of the United Provinces, has outlived its usefulness, if it ever had any. We may even concede that the relations between landlords and tenants perhaps posseessed some justification in the conditions of the time which saw their intruduction, but today they have gradually so degenerated that justice and common sense demand their outright abolition. Howsoever it be, the existing land system is passing away ; the question is what shall take its place?

There are only two alternatives, viz., peasant proprietorship and nationalization of land. We may make the worker the owner of the means of production, i. e., make the tenant proprietor of his holding or centralize the ownerships of the means of production in the hands of the State. Protagonists of peasant proprietorship advocate co-operative agriculture where farming is carried on independently by individual owners who come together and organise not the whole or any part of the actual process of farming as a joint enterpise, but only the supply of credit, agricultural or domestic requirements, the processing and marketing of produce, use of implements, irrigation arrangements, etc., i. e., co-operative farming as practised in Scandinavian countries, Finland, Denmark, Holland, Germany and other European countries.

Those who advocate the second alternative, viz, that of nationalization, stand ultimately for large-scale farming, i. e., farming where peasants surrender

their right to cultivate their holdings independently as seprate units and the individual holdings are physically pooled together in a single jointly-operated farm—in other words, collective farming, or, for a kind of co-operative farming that would gravitate towards, and culminate in, collectivisation-*cum*-mechanisation of agriculture as practised in Russia.

The issue involvéd, viz, whether planning in agriculture will be on an individualist or a socialist basis, is a most fundamental one involving questions of profound social significance and going to the very root of civilization we may hope to develop. As such it calls for serious thought and earnest application of constructive statesmanship.

We unreservedly hold peasant proprietorship to be the correct ideal for our conutry. This system is based on two principles, viz., firstly, that land should be regarded not as a source of rent providing an unearned income for its owner, but as a definite and limited means for employing the labour of a class of citizens whose regular occupation is the tilling of the soil. Consquently, it should be held or acquired only by him who cultivates or is prepared to cultivate it himself—to the total exclusion of rent or income without labour. Secondly, that land being a national asset, to the right to hold it should necessarily attach the obligation to use it in the national interest and nobody, therefore, has a right to abuse or misuse it, or, while holding it, not to use it. And if the owner or holder does not fulfil the social and economic duties incumbent upon property, he must be treated as a speculator or defaulter and be divested.

The first principle that none should be allowed to derive an unearned income from land suggests two measures, viz —

(i) the raising of the existing tenants to the ownership of their holdings, that is, elimination

of the existing landlords who are deriving an unearned income from land today ; and

(ii) the preventing of the passing of land into the hands of speculators or non-agriculturists in the future.

The second principle that land, being a national asset, should be used to the best possible advantage of the community leads to two other, viz.—

(iii) reclamation of waste land, its distribution among holders of uneconomic farms and, if excess is available, settling of landless agricultural labourers thereon ; and

(iv) regulation of the size of holdings and their internal organization.

In this paper, we will confine our attention to the establishment of peasant proprietorship only. It may, however, be mentioned that this alone must not be construed to exhaust the problem of agricultural reforms or even of land reorganization ; and the other points mentioned above are also of great importance.

Compensation to be paid—The very first and obvious step that we have to take and which will wipe out the landlord-tenant system at one stroke is to promote to ownership the existing tenants who possess hereditary rights in their holdings. But shall we declare the tenants owners of their holdings outright ? Shall we expropriate the landlords, that is, take away their land without paying for it ? There may be much to be said in favour of such a course. Even Mahatma Gandhi, the exponent of the theory of '*trusteeship*' and who is denounced by communists as a friend of vested interests, has despaired of the landlords' reform and now sees no harm in confiscation of the landlords' rights in land without compensation.

It is clear, however, that for confiscation Mahatma Ji envisaged a revolution. We failed him in 1942 and cannot now complain. Then a call was given for a political revolution which would have been attended in the nature of things by an overhaul of our social structure. Now that the imperialist strangle-hold has loosened away by consent and we can bring about a social change by legislation, shall we engulf the country in a blood bath simply for the sake of avoiding payment of some compensation to the landlords and other capitalists? And, apart its desirability, is it practicable?

There is still another consideration: confiscation without compensation would throw on the streets quite a large number of persons; we have to give them some sort of a start. That is why the Congress Manifesto very wisely provides for payment of equitable compensation to these intermediaries.

Rate of compensation—Now to the rate of compensation. Land being a naturally formed factor which remains for practical purposes constant in quantity, speculative and social elements enter in the formation of its market value, to rise of which no conceivable limit can be set. Hence market value of a particular piece of land or holding is no safe guide, and we have to consider some rough and ready method, which would obviate litigation delay and expense. According to the findings of the Valuation Tribunals in England as, for example, in the case of mining royalties, the compensation invariably came to an amount equivalent to the net annual value of the property multiplied by a number of years somewhere between 15 and 20. The "net annual value" means the rent received by the landlord after deductions have been made for "repairs and maintenance, for tithes, drainage rates and other fixed outgoings." On this basis, the rent multiplied by 10 to 20 multiplied by 30/100, that is by 4.5 to 6.0 would, on the average, give us the purchase price

of the interest of a rent-receiving proprietor of agricultural land in this province.*

There are, however, several considerations. Many zamindars stole land or got it as a price for flattery or for selling away their country. Most of them who purchased their estates have more than realised with interest the original sum which they invested. Zamindar's right in the ultimate analysis is a right for collection only. In view of all such considerations, we think the above multiple of 4.5 to 6.9 should be reduced to 3, i. e. a sum which is the equivalent of gross rent multiplied by three or net profit multiplied by ten, would meet the justice of the case in all circumstances.

To make distinctions in the rate of compensation on the basis of how and when the land was originally acquired, for helping the foreigner in 1857 or thereafter, or for valuable consideration within twenty years or earlier, or on the basis of the size of the landlord's estate, would entangle us in endless and unnecessary complications. Once we accept the principle of variation in compensation according as the circumstances of time and method of acquiring the land or its size differ, so many other circumstances and criteria will crop up that we will have ultimately to give up the attempt in disgust. It is true, many landlords, in view of the origin of their title, perhaps, do not deserve a single shell; but how are we to identify or distinguish such land? In some cases after long and disputed inquiries we may be able to do so, but then a large percentage of it now belongs to thrifty persons who purchased it for cash. Again, these very thrifty persons who purchased large properties, in auction or otherwise, within 20 years or so are greatly mistaken if they hope for return of the original sale consideration. They themselves are to blame for having speculated

* For details of calculation etc., see Charan Singh, *How to Abolish Zamindari* (Allahabad, 1947), pp. 4-6.

in land which is the basis of national life: they took to land-purchasing from the business point of view and in business one sometimes loses one's whole-capital. Also there can be no discrimination amongst tenants as regards the extent of compensation payable by them, on the ground whether they have been paying rent to a small proprietor or big.

Deducting the assets of the "assumption area", which consists overwhelmingly of *sir*, and *khud-kasht* for which no compensation need be paid by anybody to anybody, we are left with a total gross rental of approximately 16·9 crores—the rental of land held by tenants. This gives us the compensation money for the whole province at 50 crores which sum when distributed between a number of 4·5 lakhs of persons—the approximate number of landlords or rent-receiving proprietors of agricultural land according to the latest figures—can never cause inflation, as is feared by some.

Before leaving the subject, however, we may state that just as at present advised, we stand for a flat rate equivalent to gross rental multiplied by three, but we have not much objection to accepting the formula (gross rental—land revenue—local rate—25 per cent. of rental on account of cost of management, etc.) x the average duration of an annuity, viz. 20. The compensation will then vary inversely with the size of the landlord's estate; that is, it will amount to rental multiplied by two to six, as the estate is big or small. This formula will have the merit of being "just," judged by many standards.

Mode of payment—We suggested that the tenants should pay in court the compensation of their holdings determined as above, and get themselves declared as owners of their holdings. In the present economic conditions of the country most tenants can easily find the money from their own pockets; the lure of ownership of their holdings to the tenants is so great and irresistible that they will tap-

all their resources and go to the extent of selling up of their wives' ornaments or their milch cattle, but will raise amount within three months We are confident that by this method more than 80 per cent. of the cultivated soil in the possession of the tenants would pass immediately, as if over-night, into the ownership of actual tillers, and landlordism liquidated, without the State having to incur any obligations or resorting to any expedients whatsoever.

As for the few tenants who cannot afford to pay the compensation cash down, well, we need not allow them to fall into the hands of money-lenders (although in face of the present debt laws, private money-lending has almost disappeared) ; the money may be made available for the purpose by the Government on a low rate of interest to be paid back by the new proprietors over a period of, say, thirty years. The terms of repayment have to be easy In some countries, for example, in Denmark, only interest was to be charged for the first five years, and that only three per cent., and after that an additional payment of one per cent. was to be made to the sinking fund until the loan was paid off.

Cash payment by the Government to the landlords, except of small amounts, say, up to Rs. 500, is, however, out of the question, as it may involve raising of loans which is not a sound policy. Payment to present owners should, therefore, be made by the issue of Land Bonds to the amount of compensation determined, redeemable by annual payments over a stated period. The holding may be charged with the amount meanwhile. There is no risk involved in this method as the bonds will be self-liquidating, repayments being made out of the collections made from the new peasant proprietors along with land revenue. As these bonds will be State Guaranteed Securities and income on them far more certain than rent from agricultural land, they should carry very low interest, say, 3 per cent. In Estonia. where also the former owners received

the compensation in the form of bonds guaranteed by the State, the stock was redeemable by the State in 55 years and bore interest at 2·6 per cent. The bonds would be saleable by their owner in the market like other securities so that if he desires a greater income he may always realise the compensation and make use of the money at greater risk for higher income.

Institutions and public trusts or charities might be paid in perpetual bonds and compensation in their case paid at six times the rental, half to be provided by the tenant and the other half by the State.

It may be stated here that if the proprietary rights in the land are already subject to a charge or a mortgage, the creditor shall be paid that part of the debt or charge which attaches to the expropriated area, in cash or in bonds, as the case may be, out of the compensation due to the proprietor. If the debt exceeds the value of the compensation or purchase-money which the proprietor is to receive, the remaining debt shall become a charge on that part of the property, if any, which the landlord retains. Whether the debt is still payable by the landlord or bonds have been issued under the Encumbered Estates Acts, shall not make any difference.

Besides cash payment by tenants and payment by Government on their behalf through Land Bonds, there is still a third course open, viz., that adopted in Prussia under Hardenberg's edict of 1811. Peasants whose land was already regarded as heritable were to become full proprietors on ceding to their manorial lord a third of their land as compensation for what they sacrificed. Those whose properties had not hitherto been heritable, and they were the great majority in many districts, were to cede one-half. If a man had so small a holding that he could not live on the remnant, i. e., if the remnant would

be less than what could be worked by at least one yoke of oxen, he might keep all his land and pay a rent. Here, too, if the Government does not provide the money or the tenant does not wish to borrow from it, he may, after surrendering, say, one-third or one-fourth of the land, be declared proprietor of the remaining area, provided such area is not less than six acres and a quarter. Recourse to this procedure, however, can be had only if the rights of the zamindars are not burdened with any charge or mortgage.

Needless to add, whatever has been said about the tenants in landlord's estates shall apply *mutatis mutandis* to the tenants in Government estates, that is, they, too, will become proprietors of their holdings and will be liable to pay compensation to the Government at the usual rate.

While winding up our observations on the point, we may once more stress that by the method or methods that have been suggested above the tenants who constitute 88 per cent. of the entire peasantry can be raised to their rightful position—from serfdom to mastery—without any strain on the financial resources of the Government and with as much expedition as possible.

As the peasant will no longer have to pay higher rent to the landlord but lesser revenue to the State, it would improve the lot of the peasant by the extent of the difference in the two amounts. With greater proportion of his produce left to him, the quantity and quality of his food and, therefore, his health will improve. Not only this ; but as soon as his chains are loosened he is certain to display a keen desire to attend to the improvement of his mind ; there will be a demand for more schools and more libraries. It is unnecessary to add that as demands for comfort, health, education and entertainments rise, industrialisation of the country will get a fillip and traders and manufacturers will benefit greatly.

Peasant proprietorship, it may be needless to add, will have an effect on the standard of farming and the yield of the land as well; the most important national asset will be utilized to better purpose than it is now.

Mode of collection of Government demand—As for the administrative machinery which should be set up for the collection of Government dues after the zamindari system has been abolished, we do not think it should present any problem at all. Lambardars may be appointed mahalwise who will collect, and be responsible for payment of, land revenue on commission basis, as they are in the Meerut Division, and as soon as panchayats are established, this function may be taken over by them.

Non arable land to vest in panchayat—Now that the panchayat has been mentioned, we may state here that we advocate individual possession and also ownership of a sort, only so far as arable land is concerned; there can be no objection to the vesting of ownership and control of *abadi*, waste and pasture lands, thoroughfares, ponds, etc., in the nation or the village community, i.e., the panchayat, peferably the latter.

INDIAN RAIL RATE PROBLEM

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The rail rate level is a mighty problem claiming priority of attention of our Railway Minister today. It is primarily a consequence of falling traffic, at a time when the costs of railway transportation are tending to rise. The recommendations recently made by the Pay Commission have aggravated the issue. These are circumstances that baffle our Railway Minister, who is anxious to run the railways as a national asset and on commercial lines. The rate question would have been simpler to solve if the railways were allowed in war years to protect themselves with adequate reserves, for which money could be easily found then

Let us turn to the figures on the next page. The movement of gross revenues and working expenses is the chief item arresting our attention. The increase in traffic was characteristised with a faster rise in revenues than in costs until 1943-44. Costs did not quite keep pace with traffic till the end of that year. From 1944, however, the pace of costs far outstripped that of traffic and revenues—a fact typically reflected in the figures of 1946-47, when gross revenues were double the figure in 1939-40, while working expenses were no less than treble their level in the latter year. The budget estimate for 1947-48 indicates that the revenues have begun to fall and heavily at that, whereas working expenses lag much behind.

This is an inherent feature of railway economics, in that falling revenues are not followed with correspondingly falling costs, in view of the high measure of fixity in railway costs. The toll of this phenomenon was heavy enough during 1929-33. It was a period which witnessed a fall in gross

revenues from 119 crores to 96 crores, whereas the fall in expenses was from 75 to 69 crores. Statistical analysis shows that for a unit fall in traffic or revenue there was a fall in costs by 28.

To the extent that revenues have begun to fall, the present is a repetition of the 1929-33 period. There is, besides, one unfavourable difference for railways, that while the latter was a period of depression when many of their cost prices also fell, the present period is one when most of their cost prices are actually rising. In fact it is a legacy of war that railway expenditure not only rose as war-bred traffic raised the revenues but remains constant at the high level today even after war-bred prosperity is reversed.

The estimated costs for 1947-48 substantiate this inference. Of the 135·5 crores of working expenses, the largest slice is the wage bill of 85·5 crores, for pay, allowances, gratuities, provident fund contributions and loss on grain shops. There is no question of retrenchment nor of a wage cut, as public sympathy, with which the Government attitude is now in conformity, is in favour of maintaining the present level of employment on railways in terms of both wages and members. The next item in importance is stores, which, whether national products or imports, are highly priced and eastimated at no less than 23·5 crores. Equally unbending is the third major item, fuel, on which the budget estimate is 22·5 crores. Some of the recommendations of the Mahindra Coalfields Committee, viz, compulsary stowing assistance raised from a cess of Rs. 0.8.0 per ton on coal and Rs. 0.12.0 per ton of hard coke for the next 5 years, to be increased later to Rs. 1.2.0 and Rs. 1.10.0 respectively, the continuance of control and revision of prices of coal, the use of low grade coal for railway services other than mail, and express and the labour welfare outlay to be necessarily incurred on coal mines.

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TABLE I—SOME FIGURES RELATING TO RAILWAY FINANCES

(In crores)	1939-40	40-41	41-42	42-43	43-44	44-45	45-46	46-47	47-48
Gross Revenues ...	97·7	117·6	135·2	155·5	185·4	216·4	225·7	206	(Estimates) 183
Working Expenses	52·3	55·6	63 5	69·0	90·1	123·3	145·1	159	135·5
Contribution to depreciation ...	12·6	12·6	12·7	12·6	16·9	17·0	17·1	16	15·3
Net Revenues ...	33·4	47·1	56·5	73·1	79·4	77·3	65·4	35	33 6
Surplus ...	4·3	18·5	28·1	48·1	50·8	49·9	38·2	8·6	7·5
Railway Reserve ...	...	6·30	...	8·86	13·20	6 89	6·20	0·03	5·6
Working expenses per train mile...	3·65	3·66	3·93	4·94	6·68	8·37	9·00	...	...
Charge per passenger mile. (pies)	3·16	3·29	3·46	3·85	3 97	3·91	4·03	...	...
Charge per ton mile (pies) ...	5·93	6·19	6·14	6·64	6·96	7·73	7·65	...	...

TABLE II

Index Numbers of Some Railway Statistical Units

Year	Gross Revenues	Working Expenses	Working Costs per train mile	Charge per passenger mile	Charge per ton mile	Wholesale prices
1939-40	100	100	100	100	100	100
40-41	120	108	100	104	104	113
41-42	138	122	107	109	104	122
42-43	159	133	135	122	112	149
43-44	190	173	183	126	117	215
44-45	221	237	230	124	130	227
45-46	230	280	247	127	146	231
46-47	210	306	...	...	...	252
47-48	186	260	...	...	...	277

these should withhold us from hoping that the fuel bill of railways may fall.

There is little hope of fall in railway costs, as long as the above levels stand. What is worse, they threaten actually to rise. Since the last budget was framed, the Railway Minister has worriedly disclosed that at least two of the above three items will cost more than the estimated figures. In view of the Pay Commission's Report, the wage bill will rise by 37·5 crores—25 crores of extra expenditure in 1947-48 for the current year, 6 crores for the quarter ending 31st March 1947 and 6·5 crores as a result of the Adjudicators's Award. The Coal Conciliation Board has awarded a rise in fuel cost by 3·5 crores. Recent revaluation of railway properties has made it necessary to provide an additional contribution of 2·5 crores towards the Depreciation Fund. And let us no· forget that repairs and maintenance of rolling stock and road-bed are terribly in arrears. Goods traffic rose by 30% between 1939-40 and 1945-46 and passenger traffic by 127%. Still engines, wagons and carriages under or awaiting repairs daily rose on an average from 15·8% to 16·3%, 4·9% to 5·C% and 1·99% to 2·12%, respectively. These are no index of necessary maintenance having been undertaken. The strictures of the Acworth Committee in this respect made after the last war apply with greater force in the present context.

The main conclusion from the above analysis is that the cost per train mile (ton mile or passenger mile), which rose while war was on, will still increase as traffic is receding and costs are expanding. This is an especial handicap of Indian railways, which, unlike private businessmen in other lines, are subject to public regulation of many costs and characterised with inflexibility of rates and freights charged. An increase in charge per passenger mile (partly caused by withdrawal of concession fares) by 27% from 1939-40 to 1945-46 and an increase in

charge per ton mile by 46% are insignificant in the face of the rise in train mile cost by 147% in the same period. Unlike other businessmen's prices, railway rates greatly lagged behind rising costs. This might not have adversely affected railway finances as long as the narrowing margin per unit of traffic was multiplied by an expanding traffic. But the swing of traffic has been downward since the beginning of 1946-47 and Indian railways can no longer look at their rate problem with complacence.

The Railway Minister addressed himself to the problem on these lines, calculated that, unrevised, rail rates would return a surplus of 7 crores, which would be far too short of the needs of contribution, Railway Reserve and Betterment Fund, worth 7·5, 5 and 5 crores respectively and reluctantly adopted the commercial prudence of filling in the gap of 10·5 crores by raising fares by 6¼%.

The gap is possibly widened by the later-known commitment of 43 crores cited above. The Railway Minister has apprehensively expressed since that he might be compelled to announce a further rise in rates and fares. Viewed on commercial lines, this step is neither unwise nor unnecessary. If the nation feels that the increasing wages are a primary obligation from which the State ought not to shirk as manager of railways, it is incumbent on the community to pay for the wage bill in the shape of higher rates. If it refuses to do so, the nation would be saddled with a gigantic concern worth 800 crores of capital outlay returning losses year after year. On all counts this circumstance ought to be protected against.

Let us view the proposal to raise rates from the standpoint of rate relativity to commodity prices. The market price of a commodity is an accepted determinant of the rate and the relativity tends to be unduly in favour of the traffic if its price rises

stupendously without the rail rate rising at all. The rail rates rose in 1945-46 by 46% and by 27% on goods and passenger respectively, while the index number of wholesale prices was 231 in 1945-46, 252 in 1946-47 and 277 in the recent months. Is the relativity of stability of rail rates, under these circumstances, justifiable or desirable? Should we not allow railways, which resisted the temptation to raise the rates in the last 4 years, to raise the rate level at least now, not in the proportion of wholesale prices at all, but only to the extent of covering their own deficits? Do we not witness permission being accorded to raise rates in foreign countries like Canada and England?

The need for raising rates would not have been so blunt or without alternatives if the railways were allowed to build up a big Reserve Fund during their hey-day of profit, the recent war. The Railways earned a surplus of Rs. 252 crores, over and above the interest charges on capital at charge; out of which, besides the repayments to the Depreciation Fund Account and the 1931-40 arrears to Central Revenues, Rs. 12[illegible].5 crores were amassed by the Government under the Convention until 1942-43 and under the rule of three-fourths surplus since 1943-44. The Railway Reserve, which in fact started at the zero level in 1940-41, 17 years after its inception, accumulated a total credit of 46.5 crores (excluding 12 crores transferred to Betterment Fund in 1944-45) and stands today with a balance of only 16.5 crores. This is a ridiculously small Reserve for an asset of 88 crores. It should be standing trebly strong today if only the Convention were not suspended since 1943-44 to the disadvantage of railways. Given a Reserve of nearly 50 crores, the Railway Minister today would have hesitated to raise the rates rather than fall on the reserve balances as far as advisable.

The rate problem today is thus the immediate

legacy of the past to Government's policy of a big contribution to Central Revenues. Whatever reasons could be given for it in the war years rightly or wrongly, the question may be relevantly raised here whether it is desirable to place similar emphasis on the contribution as the first charge on railway surpluses in the next five years? To claim that a small addition to the Reserve ought to be earned is reasonable enough. But is it wise to budget for a rigid contribution, when it could be earned only by raising rates? It is likely that, if the contribution is insisted upon in the next half a decade, either the history of arrears of 1931-40 will repeat itself, or rates will need continuous raising. It is perhaps wiser for the Government to postpone its claims for railway contribution till after 5 years or so, or fix the claim at a nominal level, than to make them a constant reason for raising rates. The economic effects of high rates on traffic far outweigh the small gains of contribution by the Government. Whether and how far our rail rates will rise in future depends partly on the vexed question of railway contribution to Central Revenues.

The rate question, which depends essentially on the state of railway finances, will be iufluenced by a large conglomeration of favourable and unfavourable factors taking shape at present. The partition of the country has relieved the Indian Government of the strategic sections of the N W. R., which meant a continuous and total loss of Rs. 41 crores from 1924-25 to 1945-46. The Indian railways are now entitled to a sigh of relief to the tune of about 1.5 crores a year. They have reason to expect higher goods revenues from the traffic they carry, in view of the many rate revisions that the present conditions of commerce, industry and state management of railways warrant. The level of port rates, which were anti nationally low, need revision; any governmental step in the direction of coastal reser-

vation or coastal regulation will minimise the toll of sea competition and facilitate a healthy rise in coastal rail rates ; and all the low rates and agreements resulting in cheap rates over longer routes, born out of inter-railway competition, will deserve annulment and revision on a rational basis. Moreover commodity relativities have substantially changed in India during and after the war and should evoke suitable rate changes.

To these may be added the scope of operating economies that railways are hoped to achieve in the future, They are at times made an argument against the present rise in rates. While the scope of economies is admittedly large, there is perhaps no immediate hope of them, on the authority of the Railway Minister. Their fruition depends on such long term plans as electrification.

While the above factors favourably affect railway finances, there are the following operating in the adverse direction. Partition is not an unmixed blessing in that it has rendered a few of our railway sections uneconomic units from the standpoint of operation and administration. The experiment with the continuous mileage principle, first proposed for some commodities, is certain to result in a fall in the respective freight revenues. The new industries of India and the need for encouraging regional industrial development require rate concessions beyond question. The most serious problem, which positively adds to expenditure, relates to the arrears of maintenance carried forward from the war years, which require immediate attention if the railway system were not to break, and more positively if the railways were to answer efficiently the growing needs of trade and industry in the country.

It is difficult to say whether the two sets of factors will balance themselves. On the top of these comes the question of road competition which, after temporary recess in war time, will renew its

raids on railway finances. The real consequences of this factor are perhaps not fully recognised. In the period 1900-14 the trends of both passenger fares and goods rates were to fall at the annual rates of ·004 pies and ·094 pies per passenger mile and ton mile respectively. This falling trend could be taken as a sign of developing transport. But the period 1920—30 was characterised with a falling trend of passenger charge per mile by ·0114 and a rising trend of ton mile charge by ·0482 pies. This diversity in the direction of the two trends is sufficiently indicative of two material changes: (1) that motor bus competition has been more pronounced and damaging than lorry competition and has compelled remarkable reduction in the fare level and (2) that this has partly compelled the railways to raise goods rates in self-interest. If we study a shorter period, say 1927-39, when bus competition was really serious, the diversity of trends as well as the magnitude of fall or rise would be more conspicuous.

It is time that we should accord sympathetic recognition to the handicaps presented bv the modern factor of motor competition in the adoption by railways of the principle of 'what the traffic will bear', a principle whose economic merits are best evidenced by the present state of economic progress in countries like U S. A. and India. If motor competition were not adequately regulated, it would turn out to be an impossible task for railways to quote relatively high rates for short distances or concede low rates on low grade goods. Neither the length of haul nor the classification, which is a wise attempt at an equitable spread of costs, will hold water in the economics of railway rate-making, with what consequences we should shudder to imagine.

The Railway Minister has not failed 'to make some allowance for the effects of increasing competition' in making the estimates for 19+7.48. It is still premature to assert whether road transport,

which is likely to be provincialised in most provinces, will be protection to railway interests or whether it will turn out to be a more organised cause of traffic diversion from railways. There is some reason to apprehend that the latter is the truer conjecture. In the near future motor costs will fall earlier and faster than railway costs, as they consist rather of 'dependent costs' and are less rigidly handicapped by wage commitments than railways. Besides the Provincial Governments, which complain of inelastic resources in the new constitution, will strive for the maximum moneys from their motor transport undertakings, whose declared objects (as in Madras) include the freedom of the Provincial Government to utilise the profit (above 6¼%) in such a manner as they may think fit. This is a lacuna in the provincialisation of motor transport to the extent to which it is intended as a roadrail co-ordination measure It is likely that the Provincial Governments, which are fast running on reserve funds and launching on schemes that are unpruductive or positively destructive of some existing revenue, will not surrender their right to pursue road rate policics irrespective of railway interests. Considering these facts the Technical Sub-Committee on Road-rail Relations expressed their disfavour for nationalisation of road transport, except through the medium of railways. The State of Hyderabad, which took to nationalisation as early as in 1932, has entrusted the road services to the railways, with results admirable to the public and to the N. S. Railway alike. The contrast of rate movements on Indian railways on the N. S. R. is instructive in this light; the average charge per passenger mile fell consistently from 3·21 pies to 2·97 pies between 1932 and 1937 on the Indian railways, whereas the B. G. third class rate stood almost constant, except a slight rise from 3·36 pies to 3·39 pies in that period on the N. S. R.

It may be said in conclusion that the level of rail rates in India in the next decade depends on a variety of forces, whose net influence is difficult to measure as it is closely connected with the trend of business activity, level of prices in general and the Central and the Provincial Governments' policies. It is perhaps safe to assume that it will not fall, rather it might rise though slightly.

THE PLANNING OF INDIA'S FOREIGN TRADE

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That the economy of a country cannot be expected to assume an ideal pattern by following the *laissez faire* dictum, is now a universally recognized economic truth ; and this has resulted in the realization of the vital importance of planning in every sector of economy, including foreign trade. During the British Period, no effort was made to plan our foreign trade. The Britishers attempted to make India a plantation to supply agricultural products to Britain and a market for British manufactures, in which they achieved commendable success. But even this result was achieved by them in a haphazard manner, and vital economic and patriotic forces considerably altered this picture towards the end of their Rule. Now that we are at last free, we should try to plan our foreign trade with knowledge, foresight and speed.

Our former rulers put too much emphasis on our maintaining a favourable balance of trade and considering the debtor-creditor relationship of the two countries, their approach to this question could at least be defended if not altogether justified. The old relationship between the two countries is now reversed. We are no longer England's debtors but are her creditors. Therefore the necessity for our maintaining an export surplus in future might not appear to be as imperative as it should be. While we are urgently in need of capital goods which can only be had from foreign countries we are at the same time faced with an overall food shortage of nearly 4½ million tons which would cost about Rs. 100 crores to import. On the other hand, our sterling balances,

with the exception of £ 65 million which have been made available this year, are for the time being frozen. If we are to use all our available foreign exchange in the purchase of food abroad it will not be possible for us to import capital goods and essential raw material which we require so urgently. It is therefore clear that we must increase our food production. The impending abolition of Zamindari in a number of provinces will provide the Government with an excellent opportunity for the introduction of large scale mechanised cooperative or collective farming. Let us hope that the Government will realise the gravity of the economic situation and take early steps in this direction. It must be pointed out however that before cooperative or collective farming can be introduced, the agriculturists must be sufficiently educated to profit by the reorganization of our agricultural industry.

The planning of our foreign trade is closely correlated to Food Production Policy and Pace of Industrialisation. The country cannot afford to buy food worth Rs. 100 crores from abroad year after year at today's inflated prices. The "Grow More Food" campaign during the War proved to be a total failure and it is now admitted that beyond increasing the supply of vegetables for the Army, the expenditure of lakhs of rupees out of public exchequer did not bring in any return. The efforts of the government during the past few years have been mainly directed to procurement of food grains from abroad and inside the country and distribution thereof. No planned policy for an increase in food production has been followed so far with the result that we are faced with a chronic food deficit which is having a crippling effect on our national economy and economic structure. The partition of this country into Indian Union and Pakistan has very much complicated the food problem. While Pakistan as a whole in normal years will be more or less self-sufficient, Indian Union will have to face an

overall defecit of nearly 3 million tons. At the same time Indian Union will lose one of her most important foreign exchange earning export product, *viz.*, jute, which is mostly grown in the Eastern Pakistan.

The planning of our foreign trade will also depend on the pace of industrialisation. At present we are importing many kinds of goods, viz., tools, implements, machinery, electrical goods, loco. motive, motor cars, railway material, scientific apparatus, chemicals, drugs and dyes, which we hope to manufacture in this country at not a very distant future. Similarly we are at present exporting raw material and partly manufactured goods, most of which if not all we will require for our home industries. The existing cotton taxtile industry can only supply 10 yards of cloth per capita per annum. If we fix the target at 15 yds per head, our offtake of raw cotton will be one and half as much as it is now. It therefore follows that if we can increase the output of the textile industry the raw cotton which will be available for export to foreign countries will be very much less than now. There is no doubt that the composition of our foreign trade will be very different in future, from what it is now. We will no longer remain content with being exporters of primary produce and importers of finished goods Our exports will consist more and more of finished goods and our imports more of raw material and partly manufactured goods. But there are very great difficulties in the way of the implementation of our plan for industrialisation.

We want capital goods urgently for industrialising the country. From the figures published by the Controller of Capital Issues it appears that during the last 3 years companies having a registered capital of several hundred crores of rupees were given permission to issue shares to the public. Practically all the paid up share money realised so

far has being lying invested in Government securities. In 1945-46 the Government of India issued licence for the import of capital goods amounting to Rs. 150 crores. Orders were accordingly placed with foreign manufacturers but so far very few orders have been executed. The economy of all the important advanced industrial countries in the world with the exception of the U. S. A., has been shattered by the war. Neither Britain nor any continental country can deliver capital goods to us in the near future.

We have therefore to look to the U. S. A. for capital goods. Apart from the high cost of American goods the payment will have to be made in dollars which are in short supply. Our dollar resources are very limited. During the War our dollar holdings and the dollar proceeds of sales of our goods to the U. S. A. Government were compulsarily acquired by the British Government and credited to the Dollar Pool and payment was made to us in sterling. Small allotments were made to us from time to time out of the Dollar Pool to enable us to purchase American goods. We have therefore no accumulated balances to draw open. Our dollar resources have dwindled still further as a result of the imports of large quantities of non-essential goods from the U. S. A. last year consequent on the relaxation of import license restrictions. Out most important source of dollar exchange is our exports to the U. S. A. As has been pointed out elsewhere our export position will be considerably weakened by the elimination of jute from our list of exports. It is therefore essential that we should take immediate steps for the conservation of our foreign exchange resources. The Government of India have already imposed drastic restriction on the import of a large number of non-essential and luxury goods. This is a step in the right direction but these restrictions alone will not enable us to acquire more dollars or other hard currencies. We must

launch an export drive. It is realised that just at present we are not in a position to offer large quantity of finished goods for which there is a demand in the American Market, but we can easily increase our exports of carpets, rugs, coir mattings, brassware, wood work and other artistic products of our cottage industries for which there is a very good market in this U. S. A.

Even with our existing industrial set-up it would not be very difficult to increase our exports except for the fact that we are at present faced with a serious economic crisis in the form of falling production and rising prices. One of the main causes of falling production is labour unrest and transport difficulty. Labour organizations have been demanding incseased wages and every increase conceded by employers is invariably followed up by a further demand for a rise. Industrial wages must be related to the profit of the industry and any attempt on the part of labour to cut into the reasonable profits will invariably result in the closing down of mills and factories In many mills workers are adopting 'go slow' tactics and are thus directly responsible for a fall in production. We feel that the time has come when the government should fix minimum wage for every industry in consultation with the parties concerned and having fixed it, deal finally with labour. The only other alternative is for the government to nationalise the industries and deal with industrial workers as government employees. It must however be realised that so long as prices continue to rise it will neither be equitable nor practicable to scale down wages The prices of foodstuffs, industrial raw materials and finished products are all going up as is clear from the index numbers of the Economic Adviser to the Government of India. The inflationary spiral which was set up in 1942 has not yet been broken. Due to shortage of stocks, uneven distribution of black marketing, and profiteering, prices have been soaring. The situation

has been aggravated still further by the grave communal disturbances which have broken out in different places in the country. Large number of wagons are being diverted for the movement of refugees to and from Pakistan. The economy of large parts of the disturbed area has been completely dislocated. Stabilisation of price level in such circumstances will not be an easy job but it must be remembered that without such stabilisation it will be impossible for us to increase our exports. In stabilising the price level care should be taken to see that the Indian price level is not above world parity.

Export drive however must not be taken to mean that we should export our natural resources or essential raw material which is required by our home industries, in unlimited quantities. Some form of control over our exports is necessary. Such control is already in operation and is working more or less satisfactorily. There are certain export commodities like linseed for which there is a world demand, but unfortunately owing to certain alleged trade malpractices the quality of the exported commodities is not always up to the standard. Standardisation and grading of such commodities will eliminate all grounds for complaint and will lead to an increase in our exports. Government of India have circulated their views to trade organisation and it is expected that necessary action will be taken at an early date. Such useful work can be done by the various Chambers of Commerce in pushing on the export drive. It is true, they are in touch with the Indian Trade Consuls in foreign countries but it would be better if they were to send their own representatives to these countries from time to time to study at first hand the possibility of an expansion of trade. It is also necessary that the trade should be organised into wellknit associations so that concerted action may be taken for capturing new markets or new lines of export business.

Any investigation into our foreign exchange resources would not be complete without a reference to our sterling balances. On the termination of the world war II hopes were entertained in informed circles that before long settlement of our sterling balances will soon be arrived at. The Anglo-American Loan Agreement confirmed this view. The country banked on being able to obtain a substantial amount of sterling freely convertible into dollars and other hard currencies. But events have falsified our hopes. England is faced with grave economic crisis the magnitude of which even the Chancellor of Exchequer, Dr Dalton, failed to anticipite. She needs every dollar she can lay her hands on. With the best of goodwill she is today unable to meet her debt commitments. It is therefore idle to expect that she will place a large amount of sterling at our disposal, which would be freely convertible into dollars. This year she has made £ 65 million available to us, out of which nearly half represents the working balances of the Reserve Bank. Besides this amount under the interim agreement, she made allotment of dollars to us in accordance with our dollar requirements. The agreement however remains uneffected by the suspension of the conversion of sterling into dollars. But we have been asked to cut down our dollar purchases to the barest minimum. England's economic problems will not be solved unless the U. S. A. comes to her help. Any way we should take note of the fact that for a long time to come, the sterling balances will not be available to us for the purchase of capital goods from hard currency areas

Many countries obtain foreign exchange by encouraging tourist traffic. Switzerland mainly flourishes on tourist traffic. We too might try to acquire exchange by encouraging such traffic. But the conditions in this country are not quite suitable at the present time for attracting such traffic. Moreover exchange control restrictions in most countries tend

to make foreign travel difficult and unattractive. But a long-term planning of our trade must give due importance to this source of foreign exchange. As soon as the economic and communal situation becomes easier we should set about preparing schemes attracting foreign traffic by publicity and other methods.

It has also been suggested that we should ask for a dollar loan from the U. S. A. Dr. Grady's speech at a recent press conference at Delhi gave indication of the sympathetic attitude of the Government of the U. S. A. if any such request was made at the proper time. But before we can make any move in the matter, peace and harmony must be established in the country. No Government, however sympathetic it might be, would agree to grant credit to a country which is unable to guarantee the fundamental human rights of its nationality.

In the forgoing pages some of the factors which will determine the planning of our foreign trade have been discussed.

One of the main objects of foreign trade being to provide employment for the people and raise their standard of living by increasing their national income, we should see that shipping, banking, insurance and other services which are auxiliary to foreign trade are performed by our own people. The Indian Union should not depend in future on foreign shipping for carrying on import and export trade. The country has to pay a large sum of money every year as freight for the services rendered by foreign shipping companies. Last year we paid approximately Rs. 10 crores as freight charges to foreign shipping companies for carrying foodstuff only from abroad. Shipping is regarded as a vital industry in every country having a large sea board. Not only is it an important source of wealth but it provides employment to a large number of skilled workers and technicians. It also creates a demand for the

products of many allied and subsidiary industries such as machinery, electrical and marine engineering, iron and steel etc. Further, in times of war when foreign shipping may not be available national shipping ensures an adequate supply of raw material and essential commodities to the country. From reports which have appeared in the press it appears that the Government of India have decided to adopt a forward policy in regarded to Indian shipping and the target they have fixed for the future is that 100 P. C. of coastal trade, 75 P. C. of the trade with Burma, Shiam, Indo-China, 50 P. C. of Indian Trade with foreign countries and 30 P. C. of the Axis Trade in the Far Eastern Countries, is to be carried in Indian bottoms. Let us hope the Government will take the initiative in the development of Indian shipping instead of leaving it entirely to private enterprise.

Until recently the financing of our Foreign Trade was done exclusively by foreign exchange banks. The methods of financing adopted by them evoked considerable criticism which found expression in the evidence given by Indian witnesses before the central banking enquiry committee. Some of the complaints made by Indian businessmen are too serious to be ignored and should be removed at an early date. The Indian import bills are almost always drawn in sterling and not in rupee and are usually drawn under D. P. terms. This practice militates against the establishment of a bill market in this country and the consequence is that the importers have to pay interest on the amount of the bill at a rate of interest which has absolutely no relation to the London Discount Rate. Now that rupee has been delinked with sterling there is no reason why the import bills should continue to be drawn in sterling. The existing practice in most countries is that the import bills are drawn the importers' natioal currency. The drawing of these bills under D. P. terms constitutes a reflection on the

honesty and integrity of the Indian importes. Now that we are a free country Government should take up this matter with the banks who are indirectly responsible for the continuance of this practice.

The financing of export trades should also be improved. At present the Indian exporters seldom get confirmed or irrevolable credit from the Exchang Banks. Moreover acceptance credits which are quite common in the U. S. A. and also other countries, for the financing of the exporters' purchases of goods and the warehousing thereof pending shipment to foreign countries, is practically unknown. These credits should be granted to the exporters who at present finance their requirement by taking overdrafts or cash credits from banks.

There is no country in the world which allows its foreign trade to be financed exclusively by non-national banks. In most countries foreign banks dealing in exchange are subject to certain restrictions. It is suggested that the existing foreign exchange banks in India should also in accordance with the practice elsewhere submit to such control as might be considered necessary. At the present time a number of Indian banks, the most important of which is the United Commercial Bank, has been participating in the financing of Foreign Trade. A large Foreign Trade Financing Bank on the lines of the Yokohama Specie Bank or Export and Import Bank of the U. S. A. would help in eliminating the monopoly of non Indian Banks in foreign exchange business.

The foreign exchange banks try to strangle our infant marine insurance business by refusing to accept policies of Indian insurance companies covering risk on the goods shipped for export. Though as a result of strong representation made by the Indian General Assurance Companies the ban has been removed, the volume of marine insurance business secured by Indian companies is comparatively small

and we still have to pay a large amount of money every year as premium to foreign insurance companies. Our insurance companies should be encouraged to establish branches and business connections in oversea countries. In view of the fact that the Central Government will have to make large purchases of foodgrains and capital goods in foreign countries for some years to come the Government can easily give a large part of the insurance business to Indian companies without any appreciable risk.

The Railway Rate Policy also requires reorientation. Railways used low rates for traffic to and from ports. These rates were appreciably lower than those for equal distance between two interior points The object of this policy was to encourage the flow of raw material to the ports and finished goods from the ports to the interior centres. All these anomalies should be removed. The goods classification should be thoroughly overhauled and modernised. The Railway Administration should keep itself in touch with trade and instead of the Railway Rate Advisory Committee there should be a Railway Rates Tribunal with mandatory powers. Some change in the rate structure has already been made. Telescopic rates have been introduced but much remains to be done yet.

The planning of our foreign trade also postulates the formulation of our commercial policy. In view of the fact that this country has participated in the United Nations Conference on Trade and Employment at Geneva and is going to be a party to the Draft Agreement (subject to such reservations as might appear necessary to the government), India will have to line up with other countries in regard to commercial policy. Happily for us the points of difference between us and other countries have been very much narrowed down. The Preparatory Committee decided to recognise the special economic disablities and urgent fundamental requirements of

backward countries and reasonable freedom was agreed to be conceded to backward countries to use protective devices to develop new industries and help the existing ones. It was further agreed that the economic development of these countries was a basic requirement of any plan or scheme for the expansion of world trade and employment. Similarly in order to bring about an equilibrium in the balance of payment position of deficit countries and also to protect monetary reserves, special permission was proposed to be given to impose restriction on imports.

As has been pointed out elsewhere we have since been compelled to impose drastic restrictions on imports of luxuries and non-essential goods as a measure for conserving our foreign exchange resources. One of the recommendations of the Preparatory Committee in which India is very much interested is the reduction of tariffs and preferences in 4 stages. Further members of the Committee were permitted to try to secure tariff reductions by mutual negotiations Since the termination of the labours of the Committee the government of India received request from a number of countries, viz, U.K., U.S.A, Canada, Australia, New Zealand, Sweden, etc., asking for tariff reduction on a number of items from these countries. From the list which was circulated by the Government of India among various trade organisations it appeared that these foreign countries did not ask for tariff reductions on such commodities which had been given protection. The duties on most of these products were revenue duties. It is not yet known what the decision of the Government has been on these requests. It is understood that 23 nations including India have signed at the recent Geneva Conference the general agreement incorporating schedules of tariff concessions agreed to as a result of negotiations. These tariff negotiations were carried on the lines laid down in the draft charter awaiting finalisation at Haven.

So far as India is concerned it was stated by Sir Raghavan Pillai that 3 principles were kept in view in entering into these negotiations :

(a) That the tariff concessions must not be injurious to national economy.

(b) That no concessions were to be allowed on imports of such commodities in respect of which claims for protection were likely to be made within the next 3 years.

(c) That the concessions did not entail much loss of revenue.

It is not known whether the Government of India has agreed to accept the Draft Charter in toto or subject to some modifications.

The Consultative Committee of Economists before whom Government of India placed the Draft Charter expressed their misgivings regarding some of the clauses of the Charter. We hope Government will retain complete freedom of action. They should not be a party to any proposal without fully considering its implications.

As regards preferences it appears that England in view of her present economic plight is not prepared to give up preference altogether. She might agree to 25 P. C. reduction. So far as India is concerned we are still in the sterling area and in spite of the suspension of the convertility of sterling into dollars and other hard currencies, it will not be to our interest to leave the sterling area. British capital goods are definitely cheaper than American goods of the same quality. By remaining in the sterling area we shall have all the facilities for purchasing such goods as England and the Empire countries can offer to us. It follows that if we want to remain in the sterling area, we shall have to give preference until such time as England attains economic equilibrium. In the existing circumstances there is little or no danger of our industries suffering from

competition of English goods, as a result of grant of preference.

The foreign trade of this country is carried on by unofficial agencies, subject to such control of export and import trade as might be in operation. While the C. P. Government is already exploring the possibility of State Trading and has appointed a committee to report its findings, the Government of India have not yet resorted to State trading, though there are suggestions that the distribution of the essential commodities should be undertaken by the State. Trading by private individuals and firms with countries in which the foreign trade is carried on by the State obviously presents many difficulties.

At present there are a number of countries where State trading is carried on, *viz.*, Soviet Russia, Eastern Poland, and the Balkan States which are all in the Soviet zone of influence. In the U. S. S. R. the Commission of the Foreign Trade issues permits and licences for exports and imports to State organiza tions which actually carry on trade on a barter basis. No organised effort has been made in this country for exploring the possibilities of trade with the Soviet Union, which might be able to supply certain kinds of capital goods on a barter basis. A special Government Department should be set up, which should open negotiation for such trade. It has also been suggested that an Export Corporation on the lines of the U. K C. C. either owned or subsidised by the State should be set up for carrying on trade with foreign countries including State trading countries. As the trade is to be on barter basis, exchange will present no difficulty. It may be pointed out that recently we have agreed to supply 1,50,000 bales of cotton to Japan in exchange for textile goods.

In conclusion it may be pointed out that the planning of our foreign trade should be firstly on a short term basis secondly on a long term basis.

Until the country is industrialised and we have a real export surplus after meeting domestic requirements it is impossible to draw up a detailed plan regarding the goods which are to be imported and exported. If we can secure capital goods within a reasonable period of time and can turn out finished goods at competitive prices we will cease to be the exporters of primary produce on a large scale. But in the existing conditions the realisation of such an objective seems to be a far off dream. Nevertheless we should be prepared to take our rightful place in World Trade, when the proper time comes.

In the meantime every effort should be made to improve our commercial intelligence service by appointing Trade Commissioners or preferably Trade Consnts in such countries where we have no such official trade agents. Information should be collected regarding the requirements of different markets and such intelligence should be communicated to trade organisations and others in this country who might be interested. Research Laboratories should be set up for improving the processes of the manufacture of various products for which there is a market in foreign countries, out of the raw material available here with a view to enable us to improve the quality of products and cheapen the cost of production. It was in such laboratories that processes for the manufacture of synthetic rubber, plastics, rayon on a commercial scale were perfected. The Indian industries are neither financially strong nor are they sufficiently organised to equip such laboratories at their own expense. The Jute Cess Committee, Lac Cess Committee, and Cotton Cess Committee have set up small laboratories but so far there has been no commercial exploitation of the products of these laboratories. It has been suggested that a Trade Research Organisation on the lines of the B. E. T. R. O. should be set up but we doubt very much if in the present state of organisation of the export trade the setting up

of such a purely trade research organisation will be practicable.

The initiative in this matter must be taken by the State. A carefully prepared 5 or 10 year plan for industrialisation should be drawn up. Such of our existing industries which are in need of protection should be given protection. New industries either sponsored by the State or private enterprise should be brought into existence and the State should give every possible encouragement and help to such industries by granting direct or indireet protection. The existing import control restrictions will of course give indirect protection to some existing industries as long as they are in operation. When the future import trade control policy is laid down the entire question of protection to existing and future industries will have to be reviewed in the light of the circumstances existing at that time. In laying down the future import trade policy the follwing points should be taken into consideration. Firstly we should import such commodities which we either cannot produce at all or which we produce in insufficient quantity. Secondly such goods should be imported which can be used for productive purposes, viz., raw material and partly manufactured goods or goods which admit of processing and re-export. The short term plan however can be implemented immediately or at any rate within a short time.

The government should do all for an export drive. The Government Saddlery and Harness Factory at Cawnpore and the big Ordnance Factories underwent considerable expansion during the War. With the cessation of war work their productive capacity is lying unutilised and some of them have expressed their willingness to accept private work. The products of these factories have an international demand.

We would suggest that the services of the commercial intelligence Department be enlisted and that

Department should secure orders for these factories from foreign countries. Large quantities of sea fish are caught in Bombay and Madras Presidencies: Most of the catch is sold as fresh and dried fish in the local markets. A small quantity of fish oil is also extracted. There is at present a world demand for fish liver oil. There is no reason why a much larger quantity of fish oil cannot be extracted and exported. The commissioning of a few trawlers and a couple of weeks' training to the crew will easily treble or quadruple the existing output of fish oil.

There are a number of breweries and distilleries, *viz.*, Carew & Co., Dyer Meakin, Patiala Distillery, etc, in this country. They have been so long supplying rum and beer, to the British Army in India and whisky and brandy to civilians. Now that the British Army is leaving India and the Government have decided to enforce prohibition these concerns will have to close down their business unless a new market is found for their products elsewhere. Their products are of superior quality and should command a ready market in foreign countries The above illustrations show that an immediate export drive is not only possible but is practicable. With our existing equipment we can cater to the needs of foreign markets to a much larger extent that we are doing at present. Meanwhile we must cut down our purchases of non-essential foreign goods to the minimum. We should also try to step up agricultural production so that we may have more foreign exchange at our disposal for the purchase of industrial equipment from abroad.

PLANNING OF INDIA'S FOREIGN TRADE

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For a proper planning of India's foreign trade, it is necessary to find out the causes which have determined the trend and composition of our trade in the past. History bears testimony to the fact that India has always played a vital role in the commerce of the world. There was, in fact, always a struggle between different nations for acquiring commercial supremacy in India. When in the 18th century, English East India Company got the virtual monopoly of our trade the composition and trend of our foreign trade underwent a marked change. India which was the exporter of manufactured goods, such as cotton and silk piecegoods, cotton and silk yarn, cutlery and armour, perfumes and drugs, sugar and indigo, etc., had to face the competition of bounty-fed manufactures of England, which were allowed entry in Indian market on nominal rates of duty. On the other hand, India's exports were shut out from foreign countries by means of high tariff walls. This led to the decay of our industries and to the consequent impoverishment of our people who had naturally to fall back upon agriculture. Agriculture was encouraged even by the British Government in India so that England could obtain necessary raw materials and food-stuffs for feeding her people and machinery. The currency, exchange and the railway rates policies of the Government also helped in making India an exporter of primaries and an importer of finished articles.

After 1858, no doubt, our imports showed a decline under finished goods, which was due to the opening of a number of cotton and jute mills in India. The two world wars, the policy of discri-

minating protection and the Swadeshi Movement went a long way in changing the character of our foreign trade. These led to the industrialisation, to some extent, and consequent reduction in the imports of finished goods Yet it does not show the real prosperity of the people. Firstly, development of these industries was haphazard and inadequate, and secondly, many foreign industrial concerns sprang side by side which hampered the development of indigenous enterprise. The policy of imperial preference of Commerce Member in fiscal matters was also responsible for the slow and haphazard development of our industries.

The Second World War has created certain tendencies which should be maintained and improved if the prosperity of the people has to be increased. During the war, though trade with of Europe and Japan decreased; it increased, on the other hand, with U. S. A., Middle East and Malaya. Our exports increased from Rs. 169.20 crores in 1938-39 to Rs. 210.25 crores in 1943-44. The imports in the beginning of war increased from Rs. 152.33 crores in 1938-39 to Rs. 173.1 crores in 1941-42; but, later on decreased and amounted to Rs. 118.96 crores in 1943-44 due to the cessation of imports from Japan. Thus India's favourable balance of trade increased enormously reaching a figure of Rs. 91.29 crores in 1943-44. If the imports and exports on Defence Account and under Lease-Lend arrangement are also taken into consideration, the value of our trade during the war will amount to a very high figure. It is on account of this expansion of our foreign trade during the Second World War that the huge sterling balances have accumulated in England.

During the war, so much of the structure of world economy which existed before 1938-39 was destroyed that reconstruction today seems inevitable. Since the cessation of the war, there has been a demand for free trade from different quarters as a first step in the Post-War Reconstruction of World Trade

This demand for free and unfettered trade has been most vehement from U. S. A. and U. K. The Atlantic Charter which was signed by England and America advocated access on equal terms to the trade and to the raw materials of the world which are needed for their economic prosperity. The Mutual Trade Agreement of February 23, 1942 concluded between the Governments of United Kingdom and the United States of America also laid emphasis on the elimination of all forms of discriminatory treatment in international commerce and to the reduction of tariffs and all other trade barriers. The U. S. A. proposals for freeing world trade from undue restrictions have been the subject of much discussion in almost every country of the world. The clear implications of the different agreements between United States and United Kingdom, and the U. S. Proposals for free and unfettered international trade are that no country shall be allowed to hamper the free flow of goods and services by raising high tariff walls, or by imposing exchange control and other restrictions in their extreme form or by resorting to currency manipulations. The International Trade Organisation consisting of the representatives of 19 nations (including India) was set up by the 'Preparatory Committee of the United Nations' Economic and Social Council. Expert opinion both official and non-official in the principal countries has been unanimous in advocating freeing of blocked trade.

Thus, United States is not prepared to let the world revert to economic nationalism with all its implications of exchange control, export and import quotas and other controls. It is anxious to establish an era of economic internationalism with free and multilateral exchange of goods and currencies. The World Bank for Reconstruction, the International Monetary Fund and the International Trade Organisation have been designed as instruments of internationalism

But it seems to be putting the cart before the horse. The ruined economies of Europe and Asia require restoration before they can be in a position to cooperate in international schemes If the policy of internationalism and free trade is adopted by highly industrialised countries like United Kingdom, United States and France, no serious question can possibly be raised, as their industries are well developed, competent to face world competition. But the application of this policy to countries like India, China, Burma, and the Dutch East Indies, which are industrially backward but potentially rich in natural resources is fraught with grave dangers to their national economy. A substantial expansion of trade cannot be brought about by the hasty removal of so-called trade barriers, as it would hamper the development of backward countries and thereby reduce the purchasing power and the real income of their people. The correct objective, therefore, should be to use trade regulations by different countries according to their own requirements and needs.

Economic progress of India has been very slow in the past, due to the adoption of policies of discriminating protection and imperial preference. But the outlook should now change due to the formation of the National Government both at the Centre as well as in the Provinces; and the policies and measures for this purpose must involve large scale expansion of industry and agriculture. Not only the existing industries of India have to be protected and developed, but new industries need be started with due assistance from the state.

"It is our belief that a healthy and rapid expansion of Indian resources and a rise in the standard of living of the Indian people can only be brought about by a system of planned development, which must include a planned regulation of external trade," declared Hon'ble Mr. C. H. Bhabha in his address to the Trade Policy Committee on 19th September,

1947. As a result of the war, a number of industries have grown up which had not had the time to stabilise themselves, e.g. chemicals, drugs, engineering, precision tools, cycles, etc. The tariff board has made inquiries into the cases of fourteen of these industries and is reported to have recommended various measures of protection for them. These industries which are war time babes should not be allowed to perish by inaugurating a policy of free trade.

Then, there are other industries which developed due to the discriminating protection or due to other State assistance, e.g. cotton and jute industries, match, paper, sugar, cement, iron and steel, etc. There are a number of other industries also which were started by English or other foreign firms, the ownership of which is likely to be transferred to Indians as a result of independence, such as heavy chemicals, electric, cables, cigarettes, shoes, toilets, etc. All these industries are meeting the demands of the people to a very great extent; and in some cases not only they satisfy the entire demand of the country, but are also supplying the need of the neighbouring countries. It is the duty of the Government to give all assistance that these industries require, so that they may not perish as a result of the dumping of goods coming from highly industrialised nations. Not only this, but those industries which can further be developed should be given adequate help, with a view to increase the purchasing power and the standard of living of the people.

There are many key and defence industries, which have not been established in India upto now, but which are very essential for keeping the country in line with other advanced countries of the world, such as machinery, instruments and apparatus, locomotives and railway wagons, motor vehicles, air-crafts and ships, chemicals and dyes, engineering and electrical goods, etc. These industries should be

started and afforded adequate protection, and, if needed, they should be given other form of State help as well, such as subsidies.

Planning of India's foreign trade is an urgent necessity. The Indian Government should appoint a Permanent Tariff Board to study the cases of different industries and find out the extent of protection in each case. Tariff duties, in India, have been mostly levied from revenue considerations. In transition period India will require large amounts of money for purposes of reconstruction and development. It will not be in the best interests of India to do away with revenue duties altogether. Then, again, the protective duties have been granted to very few industries in India and those too are very low. India cannot support the idea of free and unrestricted trade, as her industries will not be able to face the competition of the highly industrialised countries.

India has been chiefly exporting primary produce such as cotton, jute, tea, oilseeds, hides pulses, lac, manganese, mica, etc., and has been importing finished goods, such as cotton goods, silk goods and woollen goods, iron and steel goods, vegetable ghee, oils, toilets and margarines, instruments and apparatus, leather goods, etc. This policy of depending for our necessities on foreign nations has impoverished the nation, lowered down her standard of living and has narrowed down the field for employment of our labour and capital. Thus, the long term plan for our foreign trade should aim at the development of industries inside the country for meeting the demands not only of the native population but also of neighbouring countries. This will provide immense facilities for the employment of our labour and capital, and consequently increase the purchasing power of the masses. Further, the policy of producing the cash crops for export purposes at the cost of food crops should be discouraged, as it leads to food shortage inside the country.

The other point which should be kept in view, while planning our foreign trade, is the conservation of our foreign exchange resources, which have been accumulated at the cost of immense sacrifice and privations during the war. India requires large number of machines for the development of different industries. If the exchange resources are utilised for the import of luxuries and other consumable goods, very little will be left for the purchase of capital goods, which India so badly requires. Hence, the policy of restricting the import of consumable goods should continue, and the foreign exchange resources should be used for the import of foodstuffs and capital goods.

Due to the Interim Sterling Agreement with England, India's right to draw upon sterling has been restricted. She is allowed free convertibility only of £35 millions, while £ 30 millions are to be used as Reserves, available for meeting temporary deficit in India's payments abroad. The dollar crisis and the unconvertibility of sterling have all the more strained our exchange resources. Hence, the sterling which we are allowed to draw, the balance of 25 million dollars in the Dollar Pool and the exchanges we can accumulate by our export policy should be utilised for the import of foodstuffs, machinery and only those consumable goods which India cannot economically produce.

India should not now rely much on England and should not have fascination of remaining in the Sterling Block. It means only exporting to England and importing from England by blocking the convertibility of sterling into dollar. It need be hardly pointed out that linking of rupee to sterling and the stabilisation of the rate of exchange at 1 sh 6 d has invariably been operated for the advantage of England and has given an indirect assistance to that country. The exchange value of rupee is overvalued at present, and, is therefore, harmful to our national

interests. If present rate of exchange is maintained, India will become a dumping ground for the British and American manufactures and our sterling accumulations will be dissipated leaving nothing or very little for the purchase of plants and equipment which India requires for her post-war planning. It will be to India's advantage if Rupee is delinked from sterling and is allowed to find its own level.

India's foreign trade has upto now been financed by the foreign exchange banks, which have been found using discriminatory tactics and ignoring India's interests. One of the chief items in the planning of our foreign trade should be the starting of Indian exchange banks, having all possible support from the Government and the public. Another item where improvement is needed is that Indian import bills should be drawn in rupees instead of being drawn in sterling, as has been the practice hitherto Drawing import bills in sterling is objectionable, for it puts the importer at the mercy of the exporter and retards the development of a discount market in India.

So far India's foreign trade has been conducted by foreign shipping companies, as India has no mercantile marine of her own. This results in large drain of wealth from India to foreign countries and adversely affects India's Balance of Payment. India has all the factors needed for the development of shipping, and so, a vigorous scheme for building a purely Indian mercantile marine should be launched, duly supported by the Government. The first step in this direction should be the reservation of our coastal trade to our own shipping, and for foreign trade too Indian shipping should be encouraged.

To retain and extend our foreign markets, it is necessary to have some form of organisation for pushing up our exports. In England, we have the U. K. C. C. and the Export Finance Corporation. The formation of the All India Exporters Associa-

tion in Bombay is a step in the right direction. If, we have to keep our hold on foreign markets, it is necessary that we should have both an Industrial Finance Corporation as well as an Export Finance Corporation.

Thus, India should neither advocate free and unrestricted trade nor a policy of isolation from the world, but she should aim at a compromise between the two. We have seen that India being rich in natural resources has enormous possibilities for industrial expansion which should be properly tapped by an appropriate fiscal policy with a view to raising the purchasing power and the standard of living of the people. At the same time India needs capital goods and foodstuffs which she can get by giving her surplus produce in return. This will necessitate India's entry into Bilateral Trade Agreements, based on the economic and trade requirements of the contracting parties. As India cannot rely on European markets due to their economic breakdown, she will have to develop trade with other countries, capable to supply us our requirements and willing to accept our surplus, such as United States, Canada, Australia, New Zealand, Egypt, Iran, Indonesia and Siam. India can export to them oilseeds, hides and skins, tea, spices, myrobalans, lac, carpets, numdahs, mats and matting, mica and manganese, artistic goods, brassware, glassware, etc. while she can get from them mineral oil, wood pulp, plastics and plywood, electric wires and cables, shipping and engineering goods, chemicals, different kinds of machines, agricultural tools and implements, wheat, etc.

If the planning of our foreign trade is done on the lines suggested above, it will bring not only prosperity to the Indian people, but would also increase international prosperity and employment, and then India will be in a position to play her due part in the international schemes as an equal partner.

STRUCTURE OF INDIA'S FOREIGN TRADE: ITS PLAN AND POLICY

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During the post-war years, the structure of India's foreign trade has undergone substantial modifications; and like many other countries of Europe, India too is faced with the problem of balance of payment.

The most important change in the composition of trade is heavy import of food on Government account. To meet the over-all deficit in India's food supply, the Government have to keep available the necessary foreign exchange for financing the food-import. At least two million tons of food grains are to be imported annually to keep the country off from starvation, and if the required amount of food is forthcoming from foreign sources, then at the rate of Rs. 15 per maund of food-grains, the total cost of the import comes to nearly Rs. 100 crores per year.

The necessity for preserving foreign exchange on food-account thus restricts the scope for imports of other forms of merchandise. The supply of food comes mainly from dollar countries, and as dollar is a scarce currency, the Government of India have been compelled to take steps to preserve dollar by restricting imports of merchandise on private account from the dollar area. In its circular of the 16th May, 1947, the Government of India prohibited the import of various commodities like soap, blades, toilets, fountain pens, radios and refrigerators etc. from the dollar area. Owing to war-time hardship, there was in the post-war period a considerable amount of pent-up demand for these commodities. The restriction on the import of these commodities has, therefore, hit people hard,

and the country is feeling the pinch of what is called austerity economy.

The third significant change in the composition of India's import trade is her increased demand for machinery and capital goods. During the last nine months, there has been an increase in the import of capital goods, and the major portion of these imports has come from England. The intensity of demand for capital goods in India is quite high, and her capacity for absorption is much greater than what England can possibly supply. This raises questions of a vital principle which will be taken up later on.

On the export side, the changes are no less pronounced. The most significant change is the rapid increase in the export of manufactured goods from India. Cotton manufactures have recorded most unexpected improvement. The exports of jute manufactures have also substantially increased, and leather goods, too, have made great progress. During the last nine months, exports of manufactured articles have improved from Rs. 52 crores to Rs. 67 crores.

Along with increase in the export of manufactured goods, there has been a corresponding drop in the export of raw materials. The export of raw cotton has declined. Raw hides and skins have also shown substantial fall, and decline in the export of oils and oil-seeds has been very heavy. These changes were mostly brought about under the pressure of war-time needs, but even in post-war years, these trends in trade have remained mostly unchanged.

The third important change in the structure of export trade is in diversion of India's trade connections. India has developed new trade connections with middle east countries which offer growing markets for the sale of both raw materials and manufactured goods. The decline in the importance of U. K. in trade connections of India is also signi-

ficant What England has lost has been captured by America. The import of American merchandise into this country has increased from a mere Rs. 9.78 lakhs in 1938.39 to Rs. 67.40 lakhs in 1945.46, as compared with an increase in imports from the U. K. from Rs. 88.56 lakhs to Rs. 1,01.83 lakhs in 1945.46.

II

Apart from changes in the nature and direction of foreign trade, the fundamental question that faces India to-day is the problem of her balance of payment.

It is of importance to note that during the entire period of the war there has been a considerable amount of a favourable balance of trade. In 1945-46, there was, however, a reversal in trade trends, and the *Currency and Finance Report* of the Reserve Bank of India shows that for the calendar year 1945 the total amount of negative balance stood at Rs. 19.41 lakhs. In the following years, the position improved, though the amount of positive balance was much smaller as compared to those of war-periods.

The decline in the positive balance of trade is attributed to increased imports of post-war years. The import of gold and silver has also tended to make the positive balance decline further. The latest position in the balance of trade will be evident from the following figures :—

	Total Exports	Total Imports	Total Balance
1946—I Qr.	77.53 crores	58.64 crores	—18.89 crores
1946—IV Qr.	84.07 "	83.92 "	— 0.15 "
1947—I Qr.	87.34 "	99.12 "	—11.78 "

The large negative balance in the first quarter of the current year is due to the import of treasure valued at over 18 crores. The new law seeks to "plug the leak in foreign exchange through importation of treasures." Restriction on import, as has

been pointed out before, is the other method which is being rigorously enforced to equalise the balance of payment.

III

The above analysis should lead to certain plans and policies. First comes the problem of austerity economy to which the country has been subjected through restriction of imports. Restricted import temporarily saves the situation by balancing of payment account but it does, in no way, solve the real problem. A country's wellbeing is to be measured by its proponsity to import varieties of consumers' goods. Judged by that standard, it cannot be said that India enjoys any high level of material well-being. Restricted imports will, in the long run, have to be replaced by a larger inflow of consumer goods. Continuous austerity cannot in the end produce any permanent prosperity.

Larger imports are, however, possible only whenwe are able to pay for them by larger exports; and larger exports are possible only when there is increased internal production But production has no way of increasing unless India is able to import more capital goods. The position thus is one of a vicious spiral. India is not able to import more, because she cannot produce more; and she cannot produce more because she cannot import more. The vicious circle has got to be broken somewhere. India has to start producing more of both agricultural and industrial goods. Like all other countries of war-torn Europe, her position is: produce or perish.

But how should this drive fot production begin? It is true that agricultural improvement, specially increased food-production, will release foreign exchange which will be available for additional imports. But agricultural improvement will take a long time before its beneficial effects on the internal economy are appreciably felt. While long-term plans should be made for growing more food at home, attempts

will have to be made to improve our industrial production for a quick recovery of our balance of trade position.

The real bottleneck in the plan for industrial development is the supply of capital goods. It is estimated that within the coming few years, India will be able to absorb capital goods worth 50 to 60 crores per year. The present supply, which comes mainly from England, falls far short of India's total requirement. America, it is believed, is in a position to meet India's demand for capital goods. But the real difficulty which hinders India from getting the supply from America is the scarcity of dollar. What then is the way out and what policy should India adopt ? This is the fundamental issue.

The problem would not have been so formidable had the economic difficulty of Great Britain been not so great. But as it is, Britain is unable to release further any portion of the 'Sterling Balance' which England owes to us, and what is worse, sterling is an inconvertible currency. The result is that India is unable to get the finance which she badly needs for additional capital imports.

The only alternative left for India is, therefore, to apply for loans to 'The International Monetary Fund'. India's need is genuine, and the I. M. F. should help India by giving suitable loans to help her in rebuilding her economy. Britain must stand as a guarantee to the loan, for if she cannot repay the creditor, she should, at least, help her creditor in getting on without the repayment which is due from her. By so doing, Britain, in reality, helps herself, for she gets the necessary time to rebuild her own economy and to repay the loan when she is in a position to pay.

IV

Until the period of reconstruction is over India's foreign trade must be strictly controlled. But one

thing should be made clear. Planned control is, and must necessarily be, different from controls which were witnessed during the war-period. War-time controls were unplanned and were necessitated by exigencies of the time. Planned controls which are visualised for the future have different motives. They are undertaken in the interest of the people and for improvement in the standard of living of the masses. For, by regulating trade, production would be increased, and increased wealth and output would enhance the well-being of the people.

A very pertinent question that arises here is: how far planned control of trade would be in harmony with the aims and objectives of International Trade Organization proposals?

Whatever may have been the original enthusiasm of different nations regarding I.T.O. proposals, there is no denying the fact that the opinion of the world has, during the recent months, considerably hardened against them. The reasons are not far to seek. War torn nations of Europe and Asia are engaged in the hard task of rebuilding their own economy. They are faced with the problems of equipping their industries with new capital, of mechanising their agriculture and improving transport systems. Everywhere there is a shortage of production and a consequent demand for external aid. Such a chaotic condition does not provide the necessary background for a successful restoration of free-multilateralism. Free-multilateralism can work only when there is a certain degree of world stability and a near approach to a condition of full employment in each country. I T. O proposals therefore suit America where conditions of full employment are nearly reached, and they do not plainly fit in with the conditions of other countries which frankly admit that they require the "benefit of mutual trading, bulk purchase, and barter agreements."

Antagonism to I. T. O. proposals has come in a most surprising form from Britain herself. Bevin's proposal for an Empire Customs Union has almost forced in a crisis in the I. T. O. proposals for reduction of tariffs. America seems to hold the view that the idea of an Empire Customs Union goes against the very fundamentals of I. T. O. proposals. Britain wants to disagree. But whatever be the view either of America or of Britain, the position of India seems to be rather difficult. India is sandwiched between the American inspired propsals of I. T. O. and the British inspired scheme of Empire Union. Neither suits Indian interests. India is not prepared enough for free multilateralism, nor can she hope to gain any substantial advantage by joining the Empire Union. But yet, if a choice had to be made, the lesser of the two evils has to be chosen, and if the Empire Union really materialises, India will have to cast her lot with the other dominions. For reasons more than economic, India cannot drift away from the commonwealth without the possibility of future repercussions on herself.

Lastly, a note of warning should be sounded. The world is getting divided into two ideological camps. American capitalism is coming into sharp conflict with Russian communism. American plan to aid Europe and Asian countries is making the gulf wider. India will have to choose one or the other side. Any attempt to conciliate both will prove simply disastrous. It is believed that Britain's sad economic plight is due to her indecisiveness, her 'in betweenness' of two conflicting ideals. America believes Britain has gone socialist, Russia blames Britain for not having gone socialist.

India must not experiment with both. In this hour of transition, she must take a decisive step and work with steadfastness for the objective she seeks to attain. Any scheme for wide-scale nation-

alisation, in this period of flux and change, will not only fail but also yield undesirable results.

By regulating wage policy, and avoiding labour troubles and strikes, India should fully concentrate on the production of increased wealth. It is by inereased output that we can sell more abroad to pay for our larger imports.

PLANNING OF INDIA'S FOREIGN TRADE

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In any scheme of planning an adequate previous knowledge of a country's resources, exploited or dorment, is of immense advantage, and is absolutely necessary ; but if together with the object in view, the work of assessing the total volume of effect of a plan, in the light of obtaining situation, be successfully undertaken, the success of a plan can positively be assured. Accordingly in a plan affecting India's foreign trade, its ultimate influence on the country's monetary mechanism, economic framework and the culture-complex should be carefully measured. This needs a comprehensive inquiry into each of the said domains and also an effective analysis of various ultimate effects desired in each of them through the mechanism of foreign trade. For we must recognize that the influence of foreign trade in each of the domains mentioned above is great and vital.

The Problem. On any showing India's present requirements consist mainly of capital goods, which it is finding hard to import. This demand on her part is closely linked with her objective of raising standard of living of her people. But if we analyse the problem of India's imports we would notice that it is a problem of her exports rather than of imports for the one of the two must be preceded in her case by the other. In view of this, our approach to the problem of planning should be from the other side, *viz*, an examination of the problem of exports and trade-relations which would develop as a result of new exports.

The Necessity of Assessing Foreign Markets. It is necessary at this stage to have a comprehensive idea of the present state of India's foreign trade. An

analysis of markets would reveal clearly how far India has been able to satisfy foreign demand for her goods as well as the extent to which she herself has benefited by such trade connections. An analysis of the existing trade channels would enable us to forecast how far our foreign trade can progress, in what particular directions should it be canalized and through what particular methods. Simultaneously with the possibilities of unlimited expansion in certain directions our limitations would also be revealed by the above study, and to this extent the actual work of planning would become comparatively simple.

The Actual Markets. Indian raw jute, jute manufactures, cotton and tea head the list of her exports which are consumed in large quantities by the U. S. A., Canada, Brazil, Argentine and Chile, five hard currency countries with which India would like to maintain relations. Indian coal, cloth and steel will be needed by Pakistan for years to come. India, according to Mr. H. R. Gollan, the senior Australian Government Trade Commissioner in India, is the third most important supplier of goods to Australia. Mid.Eastern countries, *viz.*, Turkey, Levant States, Iran and Irac, and the Transjordan, according to Mr. Ispahani, leader of the Indian Trade Mission to the Middle.East, require commodities which India needs herself. They require foodstuffs, textiles, tea and jute. According to Mr. Ali Amini, leader of the Iranian Delegation, Iran is willing to take large quantities of Indian glassware, cotton piecegoods, spices, jute manufactures and tea. India has been so long a rank supplier of all these commodities to Iran. Together with these a substantial share in the supply of cement, solid and penumatic tyres and tubes, rubber and rubber products and timber, is also maintained by the counry. Large quantities of Indian tea, sugar, boots and shoes, gunny bags and cotton manufactures find a profitable market in Afganistan. Tibet imports from and through India

cotton piecegoods and yarn, woollen piecegoods, brocade, dyes, copper, iron, brass, sugar, confectionery, soap, kerosene, cement, tea, china and glassware. Most of this trade is in entirely foreign hands and India benefits only from middlemen's profits and from railway freight. Canada's imports from India are wholly confined to raw agricultural and mineral products. According to Mr. R. Ahuja, the Government of India's Trade Commissioner, who was in India on a short visit, in 1945, both countries were primarily agricultural and Canada's needs were more or less similar to those of India. The United Kingdom is primarily interested in Indian raw-materials of importance such as oilseeds, jute, cotton and tea.

The above analysis by no means complete or comprehensive, is, however, helpful in enabling us to determine our future markets. Country's exports have to be directed to primarily those countries which can supply us with capital goods or other requirements. Commensurate with this desire is the question of our ability to export only such commodities as are needed by the industrially advanced countries which can export to us without delay efficient machinery etc. Next stage in the planning of exports would be to dispose of surplus production. In this connection India's monopoly in certain directions would be of immense advantage. Else we have to find out where actual surplus can accrue, after our own needs, placed on a much higher scale to be in keeping with the standard of living of other advanced countries have been fully met.

Pakistan as a Barrier? The foregoing paragraphs give an insight into our land-frontier trade (as also of sea-trade) which now with the establishment of Pakistan between the frontiers of the Indian Union and those of the Middle-East countries may no more be profitable and advantageous. Any trade with those countries will henceforth depend on the good offices of the Pakistan Government unless new

trade routes are established. For this a strong mercantile marine will be essential which possibly cannot be developed before 5 to 10 years. Pakistan's trade policies being not known we might assume that they shall be independent of ours and as such shall be so planned as to develop her own markets. In such a case they shall act as regular barriers against the smooth running of our external trade. These difficulties will be further enhanced once Pakistan has her own currency and independent monetary policies.

Associated closely with the monetary policy that Pakistan might pursue, will be the problem of exchange which may be harmful to us or may act against our interests of trade with countries lying beyond Pakistan's frontiers. In addition to these as a result of the division of the country, India's loss of jute, a surplus commodity of export and an important item of trade, should also be considered as a discouraging factor.

From the above it will appear that it would not be very easy or advantageous for India to maintain her hold in the majority of markets which she has virtually captured due to the War (1939-46). With Pakistan in between they might be even lost. The State of Pakistan therefore will not only hamper direct trade of India with many desirable countries, but shall also demand middlemen's profit for letting goods pass through her territory. This would naturally enhance prices and reduce the competitive value of our merchandise in foreign markets.

The Option. Under such conditions India has to change her customers ; more so, as her needs today are of a typical nature, *viz.*, capital goods which no country in the East can supply (leaving Russia) either due to their own deficiencies, or due to stringent trade or currency barrier. Thus India has to turn her exports to the West, particularly to America and the United Kingdom or other coun-

tries such as Canada and Brazil, countries which are in a position to meet her demand for machinery, equipment etc. The benefit of maintaining her connections with the West are also many as Indin, for years to come, shall be needing proper type of personnel to man the most uptodate machines and to finally train the Indian staff. This advantage is or obviously missing for our country in its trade with Pakistan or the countries of the middle.east.

While judging the probability of trade between India and the West we should not forget our present difficulties in the realm of exchange. As our currency falls in the sterling area, it may be said in a way that we are not free to buy anywhere and everywhere. *Our inability to secure dollars hampers our* imports from America on any large scale. Our blocked sterlings in England make it impossible for us to plan our imports. Great Britain as is fully known will not be in a position to supply our orders for some years to come. Taking it for granted that our blocked sterling balance will be released very slowly we have to rely only on our capacity and ability to export.

The Task of Planning : Effects on Our Monetary Policy.—The task of planning under the conditions and circumstances discussed above can only be *simplified if we analysed the significance of exports* as a national policy or its importance in our national economy. Surplus exports ultimately would increase the velocity of circulation of our bank deposits (and not of currency as payments are made by bank transfers), for in terms of the equation of Irving Fisher ($PT = MV + M_1V_1$) the result of transfer of purchasing power from a resident to a non.resident is significant for it tends to raise the velocity of credit instruments circulating. But it is important to realize that this transfer of purchasing power from a foreign country to our country may lose or gain in value in the process of such transfer

(and need not be the same). This feature has its explanation in the variations of exchange rates.

The 'multiplier effect' of exports applied to Fisher's Equation, may be to raise cypher M (quantity of Money) to a higher magnitude, V (velocity of circulation of M), and M_1 (volume of credit instruments). In other words, surplus of exports will initiate increased economic activity in India. As such, the old demand and supply curves would also change requiring newer adjustments. If, on the other hand, payments are to be received in gold, much of it will be absorbed by short term loans and bill markets. This too will have its effect on the existing supply and demand schedules. Hence, the effect of export on the state of supply and demand must be carefully examined both in the fluctuating and comparatively stable exchange market.

In this connection a case of currencies which are scarce (because countries concerned have surplus of exports over imports) has also be examined thoroughly. America is a country worth mentioning in this context whose currency is very scarce as it has enormous surplus quantity of goods for export whereas its import demands are comparatively few. With this unfavourable balance of trade India cannot hope to get her capital requirement from America and as this position cannot be effectively altered in the near future, the geographical direction of exports assumes greater significance with a view to obtain command over short supply currencies. It may therefore be worth India's consideration to establish a favourable balances of trade with countries which are in a position to export to America.

The Economic Bearing : Flow of trade becomes possible due to the following reasons :—(1) The attraction of the lower price. (2) Absence or deficiency of home supplies of a particular merchandise

or service. (3) Comparative quality or special consideration (4) Traditional source or the advantage of an early start. (5) Comparative economic dominance. (6) As a result of deliberate policy such as dumping or monopoly.

All these reasons are inter-related and one or more are always operating to bring about conditions of trade. If Indian tea, value for value, sells cheap as compared to Chinese tea, India shall book the order. If Indian textiles could be delivered in the Middle East at a cheaper price than the Japanese or the British, India retains her market. India imports drugs, chemicals, electrical goods etc., for its own supplies are insufficient. Afghanistan finds Indian sugar, tea, boots and shoes etc., better than competing products, so India secures an export customer. Other 'brandies' as compared to the French, although equally good, do not attract customers to the same extent, as the latter has a tradition. India had so long to import textile manufatures and other luxury articles from Britain, whether it desired or not. The Japanese flooded Indian and world markets with their cheap textiles before the war (1939) in pursuance of their policy of dumping with a view to catch markets.

The examples cited are by no means perfect, but they give a comprehensive picture of the circumstances initiating or directing the flow of trade. And from these the influence of quality, price, and scientific research over India's foreign trade should be more than clear.

But reliance in the 'multiplier effect' of export should not be unduly exaggerated. The valuable exchange resources produced by surplus of exports may not be utilized by the exporters in replenishing their stocks, etc., if conditions of trade are deteriorating. Under such circumstances, there would not be any increased activity in the country as a result of exports.

Another policy may be to export capital and with it personnel to manage foreign investments. As a result of this the incidence of the unemployment problem due to uncertain conditions of trade at home may be reduced.

A country exports and imports because it is most advantageous to do so with the result that each country stands to gain a maximum of economic satisfaction; or, we export for we get more in exchange as imports *i.e.* our national income buys better and more. To this extent the real (if not monetary) gain is increased and together with it the standard of living is improved.

Our export policy, therefore, should take into consideration the optimum level of the standard of living attainable with present knowledge and resources. And currency plans and monetary policies should be so designed as would enable the country to obtain adequate exchange resources for its future industrialisation. Country's current exchange requirements must be judged in accordance with its current ability to export. Only a proper balance between the two can act as a cue to the future prosperity of India. Once exports have taken place, any increase or decrease in the indebtedness of the importer due to movements in the exchange rates, if not by themselves evened out, may disturb our country's development plans. Such disturbances must be sought to be equated by plans worked out on international basis.

Exporters must be given priority for some years so as to secure the desired results. The direction and extent of exports, will depend on the degree to which India has developed the peculiar mental and physical aptitudes of her inhabitants.

Actual Planning. It is necessary at this stage to pose a few questions. What currencies India wants to obtain for her immediate needs? Can India secure such currencies by establishing directly a

favourable balance of trade ? How far is India in a position to export those very commodities without sacrificing her own domestic needs ? On a correct solution of these problems shall depend planning of India's foreign trade and her future prosperity. In answer to these questions it may be suggested that India should break away with the sterling group and establish direct trade relationship with America. It may also be well to borrow capital from America (and from the World Bank and the Export and Import Bank) without falling once again into the trap of foreign exploitation. For the present we should concentrate more on jute manufactures, hemp, tea, mica, shellac and natural oils as export industries for such goods are required in large quantities by America, Canada, Australia and Germany, countries which can supply us required machinery and equipment without further delay. With such currency or equipment as is available, Indian textile industry and the iron and steel industry should be reorganised on the basis of export industry. Scope for these two commodities of capturing foreign markets in the Middle, East, can hardly be over-emphasized. Leather goods, glassware, woollen piece-goods, cement, coal, drugs and medicines, sugar, tea, machinery, timber, dairy industry, all these have a vast scope for development as export industries. But their need at present is to produce for the home market so as to raise the country's miserable standard of living. Hence the need of their planning at first on a domestic basis. Only restricted exports should be allowed for some years until a real export surplus emerges. In other commodities which at present are essential for exports, people should be asked to tighten their belts.

Keeping in view our own requirements and the demands made on us by foreign countries, our raw materials must be classified as : (1) adequate (2) intermediate and (3) scarce. It is only from the first group that any export should be allowed e.g.

jute, tea, sugar, oils mica, etc. The intermediate group has a bare balance between supply and demand e.g. coal, iron ore, etc ; and various factors could tip the scale towards a deficiency. In the last group will fall most of our minerals, and under present conditions even foodstuffs, which normally should occupy an intermediate position.

We may have noticed, therefore, that if planning of foreign trade is done on the basis of India's present needs, then most of our eastern markets would be lost until our industries are once again in a position to provide an export surplus. This gap should be filled by exporting from India invisible merehandise for which there is immense scope in all these countries. Insurance, banking, and adventurous personnel should all be encouraged to migrate to these lands. Rather, India should assume the business leadership in the East by reorganizing its education, training and intellectual make-up. In any scheme of things concerning India's foreign trade, therefore, the need of developing its cultural and its intellectual make.up should not be under estimated for these are essentials of leadership. Cultural ties hold fast, longer than the economic ones.

THE INDIAN RAILWAY TRANSPORT

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The Indian Railway Transport with its ninety-four years history, and its expansion record from eighteen miles to forty-two thousand miles necessiating a total investment of under nine hundred crores of rupees has up to this date failed in earning the good will of four hundred millions of people living in this vast country of India.

Why?

Because Indian Railways were never started to promote the moral and material progress of the Indians. They were started primarily to serve the military and the British manufacturers. Service to Indians was a sort of long-range view not much in the picture. The Government of India and the British investors entered into an unholy alliance (1853-1924) to exclude Indians from any share of management so as to secure all advantages for themselves, and for their nationality at the cost of India. This was made easy on account of the entire control—administrative, financial, etc—exercised over this country by the Britishers.

In 1924.

The principle of nationalisation was definitely accepted. But this was not at all effective, because India then was not in a position to buy out the British capitalists, and tho' its political status was rising, yet it was not in a position to dictate and dominate the Railway Board. Even the much boomed Railway Advisory Committees were manipulated to make Indian members dummies. May be they were dummies or may be they were 'purchased', but the fact is that none of them ever tried to create 'scenes'

and come up before the public. Naturally in this period, Railways worked upon wrong classification schedule with a view to provide impetus for the export of raw materials at a low freight charge, and the movement of foreign manufactured goods within the country at preferential rates. These were backed by port rates.

Now it is a fact that if the classification schedule is wrong, rating is bound to be wrong. The machinery provided for correcting the wrong rating —the Railway Rates Advisory Committee—is a sham paper Committee not even worth the paper which brought it into existence.

Lastly, the Central Legislature which had effective powers to shape the Railway Policy was made a dummy house by the frequent use of veto or certification. And it must be also recorded that members were rather too prone to study the Railway problems from the standpoint of Self or of Community or both.

1924-'39

The above condition continued unabated right up to the break of the global war (1939). But during this period, the break of 1930-'36 on financial grounds is very illuminating. While the Company Railways during this period were declaring dividends to their capitalists in London at the rates of 18 per cent. (R. K. Ry.) and 22 per cent. (B. N. W. Ry.), all the State Railways were developing loss. The methods adopted to meet the loss were so novel that at one time it appeared the Railways will crash and topple down the finance of the country. This sorry state of affairs was due to the fact that the Government of India was seeing "light round the corner" while our Railways were plunging headlong into the gloom of Bankruptcy!

During '39-'45

The entire Railway investment had to be switched on for war purpose. This was a lucky boom for the Railways as it enabled them to rehabilitate their

finances tho' at the cost of their rolling-stock and lines. The worn-out rolling stock and lines could not be repaired in the Railway Workshops as they were doing more war work than Railway work. And it was during this period when they were subjected to over-all pressure. Long trains loaded to the brim, passengers on the top and on foot-boards huddling like cattle inside and scaling like monkeys outside, and the locomotive panting like a cardiac asthmatic patient was a too common sight in this country. But this state of affairs meant money, and more money, and still more money for the Railways which was taken away by the Government to meet its growing financial commitments. The Railways were thus treated as revenue earning investments of the Government. And the money that was required for rehabilitating Railway assets, for improving the lot of starving Railway employees numbering lakhs, and for providing more amenities to travellers and to traders was never forthcoming as every rupee after meeting the operating expenditure and interest charge and other priority charge commitments made a bee line to the coffers of the Central Government.

Result. accidents, strikes, derailments, corruption, and growing inconvenience to the buyers of Railway Service. But the Government of India thought that these were properly balanced by the increasing payments made to it by the Railways !

The Interim Government thro'out its existence was in a state of flux. The two groups within it—the Pakistan and Hindustan groups—carried on a sort of a political tug-of-war, and nothing was done. The old railways kept on their movement service on the old defective lines. Placed as the government was, no wide departure from the old working was possible tho' two factors improved the position of Indians *vis-a-vis* the Railways. One, more political powers to Indians, and second, the entire Railway capital was held by Indians. The

foreign investors ceased to exercise their pull by virtue of losing the rights of creditors.

The Union Government had never any breathing time for taking up the railway problems, and aligning them on the new basis of Independence. The legacy of the war-depleted finances and the low morale of the people and all sorts of topsy-turvy ideas originating from the worst type of fanatical communalism and party creeds, and shortage of necessaries of life,—was inherited in full by the Union Government.

On top of the above came two big problems (A) the division of Railways, and (B) the refugee problem. The former weakened the position of Railways, and the latter assumed such big proportions that even food had to yield the position to the refugee problem which to-day is priority No. 1 in the running of Railways in India.

The none-too high efficiency of Indian Railway has deteriorated considerably during the war and after the war with the result that to-day the Railway service is synonymous with unpunctuality, corruption, and foul service. It is admitted that the operating ratio of the Indian Railways is low, that it has gone up considerably since the war started. What is required is high efficiency and not too high operating ratio. For Indian Railways the best model is that of Japanese Railways.

The above gives a clear birds'-eye view of Indian Railways. To raise the administrative efficiency and to tone up Railway service, it is essential to vest effective powers in our Parliament in New Delhi. Here is a constructive program which I chalk out for the Hon'ble members.

Constructive Progamme

Policy. 1. A definite Railway policy which should be clearly enunciated. A policy like this will commend itself to the country: "Indian Railways are for Service and not for Profit".

Administration.

II. The administrative machinery should be simplified by (*a*) Abolishing the post of General Manager, (*b*) Reverting to the District system, (*c*) Strengthening the Lines by merger, (*d*) Intensive job analysis with a Co-ordinating Research in New Delhi.

III. The administrative cost should be lowered by (*a*) Axing ornamental posts, (*b*) Indianising European and Anglo-Indian jobs at fifty per cent. of the basic salary. A strong check should be exercised on salaries above a thousand per month, and (*c*) Bettering the lot of low paid employees.

Finance.

IV. Membership to the Standing Finance Committee for Railways should synchronise with the life of the Central Legislature, and its President should not be the Financial Commissioner *ex-officio* ;

V. The Capital-at-charge paid to the Central Government be stopped and the loss developed by strategic lines be borne by the Railway Board and not by the Government.

VI. Exact amount required under Repairs and Renewals should be carried to the Depreciation Fund. The current practice of carrying more than is needed should be given up. Further, Renewals improving the capital value should be a charge on the Capital account and not on the Depreciation Fund ;

VII. The surplus, if any, should not be shared but credited to the Railway Reserve account, and

VIII. Any borrowing from the Depreciation Fund or keeping back the payment to Government and allowing it to pile up should be subjected to strictest control.

Running.

IX. Quicker trains should be run, and the size of the train should conform to the volume of traffic. "Dead" and "half-dead" stations should be given up; and

X. In Indian trains, there should be only two classes—Higher and Lower. The former should provide comfort of the standard of the present II class, and the latter, of the type provided by the present Inter class. There is absolutely no room for the Snob class—I mean I class. It should be given up,

N. B. The present program of Air-Conditioning I class can safely be cited as an instance of adding insult to injury.

Rating.

XI. The new classification schedule should supplant the present rotten, stinking schedule. Increase in the number of classes is certainly not wanted. What is required is :

(a) Preferential treatment to the movement of raw materials and Indian goods within the country,

(b) Block rates for the movement of foreign goods,

(c) Low rates for goods moving in Indian bottoms.

(d) High rates for short-haul traffic, and tapering rates for long-haul traffic,

(e) No port rates, and

(f) Disparity between wagon and maund rates to be lessened, and disparity between

Owner's Risk Rate and Railway Risk Rate should be scientifically adjusted.

XII. The present practice of raising the rates to cover up the losses is unscientific and anti-diluvian. The right policy is "To increase and not to shrink the existing volums of traffic" and

XIII. The present Railway Rates Advisory Committee should be supplanted by a mandatory Railway Rates Tribunal whose findings on fact shall bind the Government and the public, but whose interpretations of law may be questioned in the Federal Court.

Corruption.

XVI. By taking in the right type of men and giving them enough to maintain a decent standard of living and by strong punishment to those who are guilty of "eating up" the public, the Railway service shall be purged of its growing evils. For this purpose it is necessary to seek more and mor public co-operation. The present Advisory Committees have proved failures. Therefore, they should be replaced by effective Committees in which the knowing men and the good men shall be encouraged to come in.

The above fourteen points sum up the requirements of the people. So the Railways should be aligned and adjusted on the lines sketched above.

Any expansion scheme should be metre gauge, and the narrow gauge should be completely scrapped. Inter pooling of rolling stock and getting the most out of it should be the constant outlook of the Railway Board.

Thus and thus alone our Railways will be able to promote the material and moral progress of India which is and must be their only objective.

THE INDIAN RAILWAY RATES POLICY

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The Tariff Board on the Chemical Industry rightly observed that "A Railway is a public utlity service and its object must be to provide transport at the cheapest possible rate so that both industry and agriculture may develop and so add to the prosperity of the country." Unfortunately the policy followed by the Indian Railways so far has been helful neither to agriculture nor to industries. The sole aim of the policy was to encourage foreign trade to the detriment of Indian industries and internal trade.

It is in pursuance of the above-stated policy that to and fro port rates for raw materials and finished goods respectively have always been quoted less than for internal traffic. It used to be said sometimes in justification of this policy that such discrimination became necessary to meet the competition of coastal shipping. But although the shipping rates had gone up four to five times during the war, and the need for the development of Indian industries was felt most, the port to port rates remained almost the same. It is due to this favourable position of the port towns that the few industries which were started in this country got themselves concentrated in or around port towns. In a vast country like India, if its economy is to be well organised, there must be decentralisation of industry and free movement of commodities from one place to another.

High tariff walls and liberal subsidies will not help industries in this direction. For their proper dispersal, growth and development, the primary need is to thoroughly reorganise the rating structure of the

railways. Some of the important changes which require immediate consideration of the State are discussed here.

One of the fundamental principles of railway rating is "what the traffic will bear." In this sub-continent of India where long distances have to be covered, the existing 'flat' rates cannot certainly be borne by a major portion of the traffic. If a fair and just treatment to all traffic of the same category is to be meted out, the existing system of 'flat' rates and 'preferential' rates should be replaced by a more equitable and uniform system.

It is a well-known principle of large scale production that costs tend to diminish with increasing volume of production which is also called "the law of increasing returns." This law equally applies to railway operation. Long lead traffic is carried at a cheaper average rate because the effective use of capital equipment is much better with long lead traffic. Here in India raw materials are widely scattered over long distances and before they can be brought together to a finished product, they have to be moved over long distances unlike in smaller countries like Japan and those of Europe with comparatively small distances. If the long lead traffic does not get concessional treatment the cost of produtction of finished goods as a whole will tend to rise. Therefore, if industry along with agriculture as already pointed out should prosper all over the country, it is necessary that the incidence of railway freight on long distance traffic is made lighter than in the case of short distance traffic.

All important railways in India are now State owned and consequently there is no point in a railway quoting rates as if it were a self-contained one. Telescopic rates should be introduced on the total lead irrespective of the various railways over which the traffic has to pass. Along with the introduction of the telescopic rates on the basis of

continuous mileage, the practice of charging differently by different railways to different commodities will have to go. In other words, all commodities will have to be given uniform treatment on all railways.

The discrimination which is being made by the railways among customers tendering the same kind of traffic is made possible by the wide margin left between the maximum and minimum rates of the same class. Even if the railways are promoted by genuine considerations in giving preferential treatment to certain customers, this no doubt causes a great deal of suspicion and discontentment among the railway users. In view of the proposed introduction of the telescopic rates there need not be shown any discrimination between customers offering the same class of traffic and it will normally suffice to have only one class rate. In view, however, of the nascent nature of the Indian industry, it may still be necessary to quote exceptional rates to certain specified industries. Such preferences should be granted only by the Central Govenment or other authority constituted by it after examining the full facts of the case on a countrywide basis. In any case if it is not possible to entirely dispense with maximum and minimum rates, the margin between them should be reduced to the absolute minimum.

The present railway rates had been worked out some generations ago at a time when the volume of traffic was very low and heavy interest charges and extravagant cost of foreign administration had to be met. The very fact that the railways are now-a-days yielding huge surpluses bears ample testimony to this. The railway rates should be based on actual operation costs, without risk consideration. Risk rates should be charged on actuarial basis. To make the railways self-supporting it will of course be necessary to provide adequate margin in the rates over the costs. The

surpluses which would result in such a case should not be appropriated by the State as is being done at present. They should legitimately go back to the railway users. The most convenient way of fulfilling this is to reduce the rates in subsequent periods just as surcharges are levied in unfavourable times. The English Railways Act of 1921 may be followed in this respect, which provides that no less than 80% of the surpluses earned in any one year should be applied in subsequent years to the reduction of fares.

One of the methods of charging exorbitant and uneconomic rates to certain kinds of traffic followed by the railways at present is to charge short distance and terminal charges. After the introduction of telescopic rates, short distance charges will have to automatically go.

Terminal charge is a disputable item. The railways argue that it is levied to meet the extra cost of handling the traffic at terminal stations. But the charge is not levied uniformly on all traffic but only in certain cases and at certain stations. Where this service is rendered by the owners themselves rebate is not given to the full extent of the charge. Handling goods at terminals is to be considered a service incidental to carrying. As such there is no point in levying a terminal charge. On the other hand in cases where such services as loading and unloading, marshalling of wagons, forming the train etc. are done by the consignors and/or consignees, to meet special requirements of particular traffic, some rebate on the traffic so handled may be granted to the parties according to the nature of service rendered.

The charges proposed above if adopted, it is hoped, will go a long way to remove a number of inequities in the present rating practice. The main task involved in the implementation of these suggestions is reclassification of goods, which is

by no means an easy one. Anything like 15,000 to 20,000 rates will have to be examined individually in great detail and fitted into suitable classes. The existing number of 16 classes will have to be increased to a sufficiently large number.

In making the reclassification regard should be had to the size and nature of traffic as in the case of English Railways Act of 1921. For instance the same commodity may have to be placed in different classes depending upon the size of the consignment and packing.

INDIAN TAXATION POLICY AND FULL EMPLOYMENT

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In India the true significance of the power of the Government to command some part of the private income of the people has not yet been recognised and it has never been harnessed for the fullest benefit of our teeming millions. Extraneous causes have greatly influenced our fiscal policy, and national well-being in the form of full employment has not been sought after. Our finance ministers have, thus far, remained obsessed with the classical ideology in the field of public finance and they have never cared to follow the Moden Economics. It is high time that we cease following blindly our predecessors, and try to achieve full employment through the instrumentality of taxation policy so that our countrymen may realise that the national government has done something good for them.

Full employment means that the country's economic resources are put to the best and fullest possible use so that the national income is maximised. In order to achieve this, either the government should encourage private enterprize or, if the private enterprize in not forthcoming, should act on its own initiative and see that country's economic resources are not wasted.

Modern Economics tells us that hoarding will result in less investment and more unemployment unless government steps in more and more to fill in the growing gap in the field of investment. Therefore, care should be taken to see that money is not hoarded so as to clog the process of investment. This can be achieved to a very great degree by

reducing the inequality of wealth and income as it will avoid concentration of large income in fewer hands, income for which they do not have proper use and which remains mostly idle. This is the reason why progressive taxation is considered to be a step in the direction of full employment. But progressive taxation alone will not help us in achieving full employment. In capitalistic economy, profit motive sets a limit to production and when profits are reduced due to progressive taxation, industrialists lose incentive to produce more. They think that the State becomes a partner in profit if the business is a success, but not a partner in loss if it is a failure.

In India before World War II the whole tax structure was very regressive. Even in 1938-39 the percentage of total tax on income to total tax revenue at the Centre was 23. This figure, because of the exigency of war, jumped up to 33% in 1940-41, 64% in 1942-43, 69% in 1943-44 and to 70% in 1944-45. The result of this highly progressive income tax combined with super tax, sur-charge etc., has been that production, in our country, has gone down because industrialists are losing incentive on account of less profits. It is really an alarming situation to see that while production in every country is increaing, in India it has deareased by 30% since the war years! Not only this, the producers adopt questionable means to avoid taxation. In order to avoid super tax, they think it desirable and profitable to leave their current profits within the firm as 'reserve,' or 'undistributed profit' and use these reserves in buying other firms or to buttress their monopoly position. Similarly, to avoid income tax they cook their accounts and show inflated 'business cost' in their account books, charge a large part of private expenditure from business, take things "in kind" from the firm instead of having large salaries and spend large sums of money on advertisement, salesmanship, etc. It

has been calculated that if, at present, the income of an India firm is Rs. 30 lakhs, then about Rs. 28·4 lakhs will be taken away by the govenment in the form of taxation. It is no wonder that this highly progressive income tax has, on the one hand, put a high premium on every kind of tax evasion and, on the other, marred private initiative and reduced production. At this time prodution through private initiative can increase only if industrialists are given some relief and the best method which the State can easily adopt without any difficulty is to allow all industrial *investments wholly or partly free of taxation*. Just as 'business costs' are free of tax, similarly all new investments should be made tax-free. This will give industrialists great initiative and incentive to invest and production will increase, which is the supreme need of the hour.

The other method which the State may adopt with a view to achieve full employment is the technique of deficit budgeting. It may take the form of borrowing or printing of more currency notes. Unfortunately in India we at present, cannot take the help of inflationary finance as we are already suffering from the evil effects of inflation and further inflation on the top of it will be econmically suicidal. Inflation in our country has been brought about because of the wrong expenditure policy of the Government of India. The income of the government is less than the expenditure and the gap is being filled by printing more notes. The Govenment is not caring to reduce expenses, which are mounting up every day. It is high time that the Government of India discontinues this policy, which is sure to bring financial collapse and monetary crisis of a very severe magnitude.

Full employment through inflation is also undesirable at present because it will leave large saved-up money of consumable income with the people which may become active at any time or

may remain dormant and wreck all government calculations. If people have got money to spend they may start purchasing comsumption goods at a time when they are scarce or may reduce consumption at a time when the government wants consumption to increase So it is best for the government to reduce this potentiality of the consumers and it *should encourage them to invest their savings* so that production may increase.

But the question arises that in capaitalistic economy production can increase only when people have enough money to purchase. If the government is reducing 'propensity to consume', production may suffer because people will have less money to buy goods. This argument is quite correct. But it is not going to effect us as we, in the initial years, do not want to put emphasis on consumption but want to increase investment. And in investment also, because the need of the time demands, we intend to devote our energies more to the development of capital goods industries so that our economic development may rest on an even keel and we may not have to depend on foreigners for the supply of machines. When there is sufficient investment, production will also increase. And when there is sufficient production, the government should lay emphasis on consumption and for that reason re-impose an investment tax so that people have enough money to consume.

Some may think that in this manner production may increase and we may achieve full employment, but it will give full employment a twist which will be hardly healthy and congenial. It will make the rich richer and will leave a large degree of 'propensity to consume' in the hands of a few. This will result in the very negation of the purpose of progressive or redistributive taxation. But it should be noted here that private investment as opposed to State investment is to be encouraged so long as

the State is not in a position to start industries and so long as private initiative is necessary to increase production. The moment this need is finished, we suggest the suitability of nationalization of all industries and replacement of private ownership by government control and management.

So we conclude that in order to achieve full employment the Government of India should encourage private initiative to galvanise production and harness the country's unemployed economic resources. The Government should not start nationalising industries at present and must not take the ownership of industries by borrowing or through the instrumentality of deficit budgeting. With a view to encourage private initiative, at this time when the income tax and super tax are hitting private initiative very hard, the Government should make all investments tax-free. This will encourage the industrialists to invest more and more money in industrialization of the country. But the government should be very careful in seeing that capital goods industries are properly developed according to our national needs. When capital goods industries have been well established, they will help in manufacturing of more machines and this will result in more industrialization. As soon as this stage is reached, *i.e.*, capital goods industries have been well established and consumption goods industries are expanding, the Government should re-impose a tax on investment so that investments are discouraged and more money is spent by people on consumption. When people have enough money to spend on consumption goods, idustrial expansion will go on without any hurdle. It is only in this way that India can achieve the ideal of full employment with the least possible delay and without needless 'tears'.

A GLIMPSE OF FEDERAL FINANCE IN FREE INDIA

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We are passing through a twilight phase of doubts, uncertainties and tribulations. The war is no more there, but war-time liabilities are still troubling us; the deadweight of the past is too heavy to be shaken off so easily. But we are standing to-day at the threshold of a new future–a brighter future still to be born. In the shaping of that new future it is not only the politicians and statesmen who have got their parts to play, it is also imperative upon the students of finance to bring their offerings to mother India. In moulding our destiny finance will have a very important role, because financial policy is a great instrument of political and economic policies. There is no doubt that the type of the financial policy will be determined by the nature of the future political set-up and economic objectives, but economic conditions can themselves be changed by a wise manipulation of the financial machinery.

Out of the ashes of the old India Empire the Dominions of India and Pakistan have been born, and the Indian Dominion is soon going to be free—a fully sovereign democratic republic, where there will neither be the vestiges of the age-old British imperialism, nor the shackles of a dictatorial state. The future financial structure will be determined by two fundamental factors. (1) Even before she became a full fledged federation rules of federal finance were working in India, and hence in the federal union of India federal finance, of course, shall be the order of the day. (2) In the second place we have got to note the fact that though there will neither

be fascism nor socialism in the near future, yet planning is in the air, and some type of semi-socialistic planning must be inaugurated for the economic development of the country and for achieving full employment. This envisages state interference and state partnership in business and industry in a mixed economy of the British type at least. Hence in the financial field also the old type of neutral finance must be replaced by a new type of developmental finance. But before we can get a clear glimpse of that developmental finance in the Indian federation, we shall do well to dwell in brief on the successive stages through which this new type of finance has been evolving.

During the first 70 years of British rule in India there was complete separation of the tax systems of Bengal, Madras and Bombay. From 1834 to the early sixties taxation remained almost exclusively central. From 1870 steps in financial de-centralisation began to be taken. In 1920 a convenient separation from the administrative standpoint was made between the resources of the Central and Provincial Governments. The financial counterpart of the Mont-Ford constitution was the Meston settlement, which was based on a theory of 'clean cut' in financial relations, which was, however, influenced primarily by considerations of administrative convenience. The 1935 constitution abandoned the anti-dated arrangement of clean cut and the Niemeyer Award introduced modernism by re-distributing a part of the Income Tax receipts to the Provinces, and a part of the Jute Duty to jute-growing Provinces.

In the early days of the E. I. Co.'s rule the main objective of taxation was to provide funds to enable the state to perform its police-functions. Provision of funds for sanitation, public works, education etc. was developed gradually, but throughout the nineteenth century the view that taxation

should not only bring revenue, but should also achieve re-distributive justice could not find favour. The Income Tax became important during the World War I as a matter of necessity, and it continued to remain so after the War I, with the result that the redistributive role of direct taxes had its beginning in India.

The chief features of the Indian tax system before World War II were the following. (*a*) On the whole the Indian tax system remained greatly regressive. Only 4% was derived from the progressive Income Tax and 2% from the Corporation Tax. (*b*) There was a passive reliance on indirect taxes on consumption. Customs contributed 35%, salt contributed 8%, excise contributed 6%. (*c*) Provincial revenues were static and regressive in character. The anti-dated Land Revenue contributed as much as 31%. (*d*) In the field of local taxation 32% came from taxes on real property and 35% on consumption.

The last war has brought about a disturbing redistribution of national income, and the relative importance of the direct and indirect taxes has changed. The Income Tax has triumphantly emerged as the most important tax. The following table shows the percentage yield in 1943-44 as compared with 1937-38.

	1937-38	1943-44
Direct taxes	19·6%	57·6%
Customs	47·8%	19·2%
Central excise	7·66%	25·42%

This shows how customs dwindled in importance with the shrinkage in foreign trade during the war, and how Income Tax and Excise gained in importance during the war boom. The following table shows the wartime yield in crores of rupees of the 4 principal heads of central revenue as compared with 1947-48.

	1943-44	1945-46	1947-48
Customs	26·57	73·61	93·00
Excise	24·94	46·36	40·83
Income Tax	109·65	149·80	123·09
Currency and Mint	9 97	16·75	15·65
Total	171·12	286·82	272·69

Under the policy of discriminating protection customs gained in relative importance as a source of central revenue, but in the future it will continue to be unimportant as tariff duties will give place to direct control of foreign trade under public bulk trading in a planned economy. Income Tax will remain the most important tax both because it is a potent instrument of achieving progression in taxation, and because incomes will go on increasing along with the industrialisation of the country.

Another very important feature to be noted about Indian taxation during the last war is that according to the budgeted war expenditure more than ⅔ths have been covered by taxation. Our total war expenditure during 6 years of war amounted to nearly Rs. 2000 crores. But our actual war expenditure is much more than that, because expenditure debited to the British Treasury should also be included. Expenditure debited to the Indian account is less than half of the total war expenditure. In Great Britain a little over half of the war expenditure has been financed by taxation, the rest by loans. In America nearly ⅔ths has been financed by loans. So comparatively speaking the Indian position is better. But, in the words of Lord Keynes, we should not be led away by the humbug of finance. Because the question of war finance really dissolves itself into two facts, *viz.*, (*a*) producing or borrowing from abroad more economic resources for war or (*b*) diverting economic resources from home consumption to military consumption, either by taxation or

by internal loans, or by inflation (which is a form of disguised regressive taxation) or by disinvestment. In India the appalling inflation, unattended by the growth of production as in U. K. or U. S. A., the terrible sufferings of teeming millions and the fantastic death rolls of Bengal famine explain our real cost of war. Here the emergency of war was met haphazardly, partly because the Government lacked the knowledge and inspiration for a better policy and partly because the rigid and backward Indian economy could not be switched over to war production suddenly. In this connection the criticism of of the growth of military expenditure, however, sounds a little eighteenth centurian, as all modern wars must be highly expensive, and funds for fighting the war must be found by hook or by crook.

Now, let us examine the last two post war budgets before we can make inferences about the future. At the very outset we should remember two things about our interim finance. Firstly, we should not forget like the 'Eastern Economist' that though the war was over war conditions were not over immediately, so that wartime obligations had to be met with the war-born technique of financing; and secondly that just after an emergency in the interim period before new programmes can be taken up, the immediate problem for the financier is to balance the budget so long as the war boom is on Strangely enough the 'Eastern Economist' has been of opinion that there has been no case for urgency of "covering up the meagre deficits by purposeless tax proposals.". Even the Fabian budget of Dr. Dalton shows a greater concern in equilibriating the national finances and the balance of payments in foreign account than in making arrangements for socialisation of the instruments of production. He has maintained the war level of taxation, has tried to balance the budget while the boom is on, and has also tried to reduce inequalities in so far as the financial mechanism can do that by steepening death

duties, and by heavier taxation of the upper ranges of income, gradual but progressive relief of lower incomes, stupendous increases in the expenditures on social services, and subsidisation of the cost of living etc. And if the postwar Indian budget has tried to do a fraction of those things after balancing the budget should it stand to criticism? Before the Dominion finance can start on an even keel it is an imperative necessity that if not all the economic liabilities, at least all the financial liabilities should be paid off, and no deficit should be left over. And how can this be done unless the war level of taxes are kept up? Prof. D. R. Samant's argument that the 1946-47 Budget was restrictive and did not contribute to the aim of economic expansion, in as much as more than 50% of the revenues was contributed by indirect taxes and the corporation tax made heavy in-roads on profits thereby restricting production, is beside the mark; because it ignores two facts, *viz.*, that the tax structure could not be overhauled immediately after the war and secondly in the post-war boom the direct taxation rates on profits could not be so restrictive as to change the tide of the economy. The argument perhaps is meant for a slump period.

Almost the same replies can be given to the 'Eastern Economist's criticism of Liaquat Ali Khan's budget, which also had two great objects, *viz.*, (*a*) to cover up the deficit and (*b*) to secure re-distributive justice. The total revenue estimated for 1947-48 was Rs. 279·42 crores as compared with Rs. 336·19 crores for 1946-47. The fall of Rs. 56·77 crores was due to the disappearance of E. P. T., war risk insurance proceeds, appropriations to the central revenues and a fall in excise by Rs. 3 crores and increeased working expenses of P. T. Deptt. The budgetted expenditure was 327·88 crores. The deficit of Rs. 48·46 crores was increased to Rs. 56·71 crores due to the abolition of the Salt tax. In view of this discrepancy the taxation proposals were not really so bad. It is

said that "misery will swamp the common man" because there has been a business profits tax of 25% for 1946-47, a doubling of the corporation tax and the steepening of the super tax on personal incomes, which all aim at reducing business profits. The argument that the misery to the common man would come via the reduction of capital replenishment, and money accumulation would perhaps hold good during a normal period. The remedy of retrenchment suggested also does not take note of the fact that hasty retrenchment is possible only in profit earning private concerns. The capital gains tax, it is argued, should not have been introduced because why should India alone in the world adopt an advanced financial measure like U. S. A.? The administrative difficulty suggested in administering this tax reminds one of arguments forwarded in the nineteenth century against the Income Tax. The burden of the current arguments is that the tax proposals would not advance the cause of economic expansion, which should be our objective. But what I am driving at is that because economic expansion is our norm, the time has come when we should think in terms of develepmental finance, but it is for that very purpose that the aim of interim finance should have been to balance the budget.

Now let us make a rough estimate of the possible revenues and expenditures in the first separation budget in India. After about a month on the 15th November, 1947 the Indian Union's proposals for expenditure in the next year would have taken shape. According to one estimate, however, the revenue budget of the Indian Union may be about Rs. 175 crores, and the borrowing capacity about Rs. 80 crores only. Under such conditions budgetary equilibrium can be achieved through the reduction of defence expenditure to Rs. 56 crores only, drastic economies in the various departments, increase in the excise duties and increase rates of income tax, which are far behind rates in U. K.

Pakistan's contribution towards our interest charges, India's share of the expenses of the Joint Defence Council, the provision required for relief and rehabilitation, specially for refugees, the financial effect of the revision of pay and allowances and the size of the Army Budget, specially at a time when Pakistan is hostile, and the world continues to brew up for a third world war—are all very conjectural.

The final estimate of the revenue deficit in undivided budget for 1947 48 was Rs. 29·46 crores. About Rs. 36 crores should be added to this, because of increases in pay of the civil departments and refugee expenditure, and non-realisation of Railway and P. T. contribution. The over-all deficit might be about Rs. 70·96 crores in an undivided budget. India's share might be about Rs. 50 crores. Moreover, if there is roughly 25% Muslim recruitment so far as the communal composition of the services is concerned, then Indian Union's budget will be of the order of Rs. 230 crores according to the 'Eastern Economist,' at current levels, after making allowances for allocations between the two Dominions. Even after drastic retrenchment more than Rs. 10 crores cannot be scaled down from the civil expenditure, which is now about Rs. 143 crores Allowing all uncertainties defence expenditure cannot come below Rs 85 crores, even after the planned demobilisation, and partition relief to the Indian Exchequer. We have seen elsewhere in this article that the total yield estimated in 1947-48 Budget from the four principal heads is Rs. 272·69 crores. The contribution from all other sources is estimated at Rs. 25·73 crores. After partition these receipts might be affected roughly in the following manner. Indian share of customs = Rs. 75 crores, central excise = Rs. 37 crores, Income Tax = Rs. 105 crores, Currency and Mint = Rs. 12 crores This gives a total of Rs 229 crores of revenue, without taking into consideration other heads. Hence there can be a reasonable expectation of a balanced budget, after

making provisions for reasonable retrenchment, some loans, increase of excise duties, and steepening of income tax along with the keeping up of business profits tax and capital gains tax.

The Supplementary Report of the Union Powers Committee of the Indian Constituent Assembly about the allocation of resources has given rise to great controversies, because almost the same heads of revenue have been rightly allocated to the centre, which were included under the central head according to the 1935 constitution. It is alleged that this will increase union powers and Provinces will find that their resources are extremely inadequate. But this allegation is based on a one century old conception of federalism. We must remember that even the U. S. A. federation has marched forward from the age of the stage coach to that of the aeroplane, from the age of Lincoln to that of Roosevelt and Truman. In the interest of the even economic development of the whole country and for efficiently meeting emergencies the centre has usurped more and more powers under the provision of implied powers. We are living in an age of "integral federalism," which means federation not of powers, but of jurisdictions. The whole history of federalism has pointed towards a movement from the type of the U, S A. federation to that of the U. S. S. R. And in such a federation the tax revenues must of necessity be administered according to convenience and with a view to the integral economic interest of the country. From this point of view Income Tax, Customs, Excise, Currency and Mint must of necessity remain in the hands of the centre. But this does not imply that the whole of the tax receipts should also be appropriated by the centre. There has been the growing importance of the system of assignments, subsidies, and subventions to the units from the Centre in all the federations of the world and even in India the Niemeyer Award was based on a tacit acceptance of this principle.

The demands of the Provinces boil down to two suggestions :—

(a) The centre should now levy or explore more conscientiously the taxes reserved for distribution to Provinces i.e., duties on central stamps, succession duties, terminal taxes on goods and passengers carried by air or railway and taxes on railway freights and fares.

(b) The statutory grants and the discretionary grants should be increased and some of the yield of the central excise duties should be re-distributed, specially because the Provinces are going to lose the revenues from the prohibitive excise duties.

But for carrying out these suggestions no departure from the existing or proposed scheme will be necessary.

Graduated Inheritance Tax should be given an assured place in the fedeal tax structure. The Estate Duty Bill introduced in 1946.47 Budget was a bit too late to be introduced as a great engine of fiscal reconstruction. Apart from bringing more revenue it is a potent instrument of redistributive justice. All the Provinces should fully develop the Agricultural Income Tax and the Sales Tax, but central co-ordination even in these two cases would be necessary for common standards and for avoiding conflict of tax jurisdiction between Central Excise Duty and Sales Tax.

As taxation should also be a potent instrument of economic development, the Union should be careful that the sheeply graduated direct taxes may not be so high in normal periods as to adversely affect the private consumption outlay and the net private home investment outlay. Here, of course, it should be borne in mind that the role of taxation in this respect in a planned economy is purely passive, for

a time has come when we should realise the relative unimportance of taxation as an active instrument of economic planning, though some economists like Prof. P. C. Malhotra make mistakes in this direction. We shall presently understand this as we analyse the method of developmental finance.

As soon as the interim troubles will be over, and the Indian Constitution will be ready the time will come for a bold policy of public finance in India. Economic development and attainment of full employment must be the immediate objectives of the Indian Government. According to Sir William Beveridge, even in a democratic society full employment is attainable through the manipulation of the total outlay. Public outlay should be sufficient to absorb the surplus labour after private outlay has offered the maximum amount of employment. This can not be done on the old model of neutral finance. Balancing the budget could have been the ideal for a timid Government of the past, but balancing the economy should be the motto of a bold Government of the future. For realising this "deficit budgeting" is unavoidable and President Roosevelt actually proved its efficacy in his New Deal. Beveridge suggests the adoption of a new tpye of budget, called the 'manpower budget', aimed not at balancing the revenue for meeting the expenditures of the various departments, but at balancing the total manpower of the country against the total amount of work. If there is no work then the workers will be asked to dig holes and fill them up again, according to Lord Keynes. But in reality there is so much useful work to be done in India that the Keynesian contingency would not arise. The war has taught us that if for fighting enemies full employment can be offerred, it is also quite possible to employ all workers to fight the innumerable evils of our society and economy, provided that the Government has got the will to do that.

But then for meeting the huge amounts of capital expenditure on public utility services and on state enterprises, the annual revenue of the state can never be sufficient and hence we should adopt the Swedish model of double budgeting.

(a) The old type of 'revenue budget' should continue and the guiding principle of this budget should be a 'balanced budget' for meeting the expenditures on the old type of essential and ministrant services.

(b) Secondly a 'capital budget' should be added to the ordinary budget, and this will be semi-independent of tax revenues. Deficit budgeting implies the increasing use of loans, both internal as well as external, to meet the huge expenditures on capital programmes.

In the Bombay Plan there was tha suggestion of using Rs. 700 crores from foreign borrowing, Rs. 300 crores from hoarded wealth and Rs. 4,000 crores from internal savings. But we can develop a more powerful instrument of financing the capital budget. This is the much-feared device of "created currency and credit," though it brought about the disastrous results of inflation in India during the last war. The Bombay Plan suggested the use of only Rs. 3,400 crores of created money out of a total investment of Rs. 10,000 crores during a period of 15 years. Created money should become more important as a technique of developmental finance firstly, because enough loans might not be available, and secondly, because loans create future liabilities for the state, specially in case of non-productive loans on public utility works. Created money will not be ruinous for the economy in future, if production increases simultaneously. During the last war created money played a useful part in U. K. and U. S. A., without bringing about inflation, because production did not lag behind as in India. In fact,

if the banks are nationalised, created money will not create public debt, and then along with increased agricultural and industrial production created money will work as sinews of economic activity. Of course, to guard against the 'production lag', great care should be taken to utilise properly the correct amount of created money in our developmental finance, but for that care should be taken in handling the whole engine of the capital budget.

So if the capital budget in Indian federal finance is to work properly it is not sufficient to have a bold financial policy; we require also an efficient union financial service to work out the programme. The motive force of our intricate financial machine should come from financiers with vision and imagination, but the keyboard of the machine should lie in the hands of expert financial assistants, having tact and technical acumen. Then only will the economic objective of free India be achieved through our financial policy.

INDIAN TAXATION POLICY

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The need of a new taxation policy. The Indian Taxation policy, so far, has been made to serve the interests of the masters of the country, and has disregarded totally the interests of the country itself. The history of Tariffs, throughout the British rule in India, is a long series of attempts to encourage English industries at the expense of the industries of the country. Free trade was forced on India by its British rulers in order to procure raw materials for the English industries, and create a permanent market for the English goods in India. Indian industries were never allowed to develop, and even the successful industries in the pre-British period have been gradually killed with the help of the Taxation policy. Even when on the insistent demand of the people of the country the rulers of India were reluctantly forced to adopt a policy of protection, they adopted the policy which was least harmful to their own interests. The policy of discriminate protection was really a policy of discriminate free trade and was ultimately converted into one of Imperial preferences wherein the concessions given to England were real and India received in return vague promises and concessions of doubtful value.

No attempts was made by the British Taxation Policy in India to make the country economically prosperous and progressive. The question of raising the standard of living was paid no attention; nor was any effort made to correct the inequalities in the distribution of wealth and welfare in the country.

Now that India has attained independence, it is free to mould its policies in the interests of its people, and make the country prosperous and progressive so that it may occupy its rightful place among the civilised countries of the world.

Taxation policy is only a means to an end, and it should be made to serve the interests of the Indian peoples now. A reorientation of the Indian Taxation Policy is thus urgently required.

The objectives of the new Taxation policy stated. Before suggesting the new Indian Taxation policy the objectives to be achieved through it have to be clearly set forth.

Since the complexion of the Government has changed completely in India, its aims and objects are not the same as those of the previous Government. The Government is now 'of the people, by the people and for the people.' Its primary concern, therefore, has to be the prosperity and welfare of the people of India. Public interests can no longer be ignored. No Government can hope to be stable unless it tries to aim at the maximum welfare of the people. In order to improve the condition of its subjects the Government of India must pay immediate attention to a number of questions.

Reduction in the inequalities in distribution. In the first place, the inequalities in the distribution of wealth and economic welfare in the country have to be corrected. That there is an urgent necessity for doing so can be easily demonstrated. 'According to Dr. Rao the urban income per head is more than thrice as high as rural income, the rural income being 51 rupees and urban income being 166 rupees. There is a real difference in the economic conditions of people living in towns and in the villages. Among the urban classes themselves there are vast inequalities. Nearly one-half of the urban income belongs to less than one-tenth

of their total number. Even among the comparatively well to do with an income of over Rs. 2,000 per year. 38% possess only 17% of the total income and a little more than 1% claim as much as 10% of the total income.'[1]

For exploring the possibilities for British business an official estimate was made of the distribution of income in India, which is as follow.[2]

No. of house-holds.	Income in Rupees.	
6,000	Over	100,000
270,000	Average	5,000
250,000	,,	1,000
35,000,000	,,	200
The rest	,,	50

It can be seen from the table how unevenly the incomes are distributed in the country. While there is a very small minority rolling in riches, the vast majority finds it difficult to get even two square meals a day There are a few Taluqdars, big landlords and mill-owners enjoying large incomes but the common man in the street faces abject poverty.

A National Gvernment cannot allow such a situation to continue and a levelling up in the case of lower incomes and a levelling down in the case of higher incomes is inevitable.

(ii) *Raising the Standard of Living.* Secondly, the standard of living of the masses has to be raised considerably. The per-capita income India, according to the estimate made by Dr. V. K. R. V. Rao, in 1942-43 was no more than Rs. 69.' Mr. Colin Clark in his 'Conditions of Economic Progress' has compared the real per capita income of the different countries of the world by reducing the national incomes of these countries to the same

1 Our Economic Problem by Wadia and Merchant (1945), pp. 518-14.

2 Times' Trade and Engineering'—Indian Supplement, April 1930.

price level after considering different factors. He has expressed the real incomes in terms of international units per head of working population. The international unit is taken to be the amount of goods and services one dollar could purchase in U.S.A., on an average, over the period 1925-34, and all the data were reduced to this standard. His figures for some of the important countries are as follows[8]:

Country	International Units	Country	International Units.
U.S.A.	1,381	Japan	352
Canada	1,337	Italy	343
New Zealand	1,202	U.S.S.R.	320
Great Britain	1,069	South Africa	276
Australia	980	Egypt	300-350
France	684	Br. India	200
Germany	646	China	100-120

Thus, the welfare the average income commands in India is, with the exception of China, the lowest among the important countries of the world. Even as compared to Japan where agricultural and other conditions are more or less the same as in India, the real income per head is quite low. The difference is glaring indeed if a comparison is made with countries like U.S.A., Great Britain and the British Dominions. A great lee-way has to be covered before we can approach the standard of life enjoyed by even the backward countries of Europe.

Dr. Aykroyd in an article in the 'Indian Journal of Social Work' says for Britain that 'amonst the lowest income groups are still some who suffer from actual hunger. . Immediately above is a much larger group estimated to cover 20-25 per cent of the population, who can afford enough food to fill their bellies, but cannot afford a diet of the type and quality now known to be essential as a safeguard against malnutrition and disease. On the next

8 Our Economic Problem, p. 515.

step upward comes another large group which commands enough purchasing power to obtain an adequate diet for the whole family, provided that this purchasing power is spent on the lines suggested by the Report of the British Medical Association Committee on Nutrition." As regards India Dr. Aykroyd estimates that a much larger percentage suffers from actual hunger and a much smaller percentage falls under the other groups. There is no doubt that millions in this country do not get enough to eat. It has been estimated that the average Indian's daily caloric requirement is 2600 calories; and the percentage of people who cannot obtain the minimum caloric requirements is sufficiently large.

The case for an immediate attention to the problem of raising the standard of living is a very strong one. The situation as regards diet which is directly dependent on the income of the people is extremely grave. The prosperity of the country depends on the quality of the poulation, and no National Government can permit this quality to deteriorate.

(iii) *Stepping up production.* The question of raising the standard of living is, however, very intimately linked with the problem of stepping up production, both agricultural and Industrial. For raising the standard of living this problem has also to be tackled by the Indian Government. There cannot be an improvement in the distribution of national dividend unless there is more to be distributed among the peoples of the country.

The present position of production in India is highly unsatisfactory. Both qualitatively and quantitatively the production of the country as compared to other countries stands very low. The following table[4] shows the production of different crops per unit for some countries of the world. (1932-36).

[4] R. K. Das 'Economics of Indian Agriculture' in MODERN REVIEW, January, 1941.

In Quintals per Hectare.

Crop.	China.	Japan.	France.	Italy.	U.S.S.R.	U.S.A.	India.
Rice	25·6	36·0	...	...	...	...	13·7
Wheat	11·1	13·8	15·9	14·3	7·8	8.3	7.0
Barley	12·1	20·4	14·6	10·6	8·9	10·5	9·4
Maize	13·7	13·8	14·4	19·6	10·1	13.2	8·7
Cotton	2·4	...	...	...	2·4	2·1	0·9
Linseed	...	...	4·6	5·9	2·8	3·5	2·7
Ground nuts.	18·2	21·5	...	...	...	7 9	10·0

Agricultural technique, however, remains what it was centuries ago. Inspite of the low productivity of land no serious attempt has been made to improve the methods of cultivation in India. To step up agricultural production two problems have to be tackled. The fertility of soil must be improved through better irrigation, prevention of soil erosion, better manures and better seeds. At the same time, agricultural technique must be changed. Fragmentation and scatterdness of holdings has to be arrested, more scientific rotation of crops has to be introduced, consolidation of holdings, with a view to make the holdings economic, has to be undertaken extensively and better implements must replace the crude implements in use today.

The condition of industrial production in India is no better. The finding of the Royal Commission on Labour is that an industrial worker in India "produces less per unit than the worker in any other country claiming to rank as a leading industrial nation." Sir H. P. Mody remarked in his evidence before the Labour Commission that " "in Japan a a weaver minds four looms and efficiency there is 95%. In China a weaver minds four looms and efficiency there is 80%. In Bombay a weaver minds two looms and efficiency is 80%. Calculated on the basis of Japan and China a weaver in Bombay is

paid 200 and 300 per cent more than a weaver in China and Japan."

While the efficiency of industrial production is so low we have to import every type of manufactured goods from outside. There is hardly any capital goods industry in the country and for the maintenance of even the existing industries India is dependent on foreign imports.

For this state of affairs the Taxation policy in general and Tariff policy in particular have been mainly responsible.

Apart from the necessity of improving industrial production in order to raise the standard of living, exigencies of the State demand stepping up of industrial production immediately. No country can be powerful if its industries remain backward and if it has to depend on foreign powers for meeting its basic requirements.

The new Taxation policy. Having stated the objectives the new Taxation policy will be called upon to achieve, the directions in which changes are essentials can now be indicated.

(a) More progress in income tax. To bring about a better distribution of wealth and welfare in the community, and to reduce inequalities, the principle of progression has to be extended and applied more intensively. The present rate of income tax is not progressive enough and needs to be graduated more sharply.

It may be argued, however, that taxation of income at a graduated 'steep rate' will affect industrial activity, because it will reduce the inducement to invest in the industry. There is some force in the argument, but the difficulty is not insurmountable. The graduation in the rate of Taxation of the industrial income can be so determined that the returns from industrial investments which are left to the investors after taxation are larger than the returns from other types of investments. In such

a case the inducement to invest in the industries will still be there.

(*b*) *Progressive Agricultural Income Tax.* There is no justification, again, for exempting agricultural incomes from an income tax. The new Taxation policy must not taboo an Agricultutal Income Tax. While it has to be admitted that the incidence of land revenue on lower agricultural incomes is more than the incidence of income tax on similar incomes from other sources, it is equally true that in the case of higher incomes from other sources the incidence of income tax is more than the incidence of land revenue on similar agricultural incomes. A better distribution of the burden of taxation can be achieved, if an agricultural income tax on higher agricultural incomes is imposed and graduated steeply. It will, also, bring about a better distribution of wealth and welfare in the community.

In the case of an agricultural income tax a distinction will have to be drawn between non-cultivating land owners and cultivating tenants and owners. The non-cultivating owners' income is to a large extent an unearned income, and in the calculation of the taxable agricultural income the entire income should be included. But the case of the other class stands on a different footing. Their gross income cannot be taken as an index of their taxable capacity. Such incomes should be treated in the same manner as industrial incomes, and in determining the taxable agricultural income, in their case, allowance must be made for the cost of cultivatation.

Again, in determining the rate of txation for both the classes equity demands that incidence of land revenue or rent already paid should be taken into consideration. A further important point to bear in mind will be what portion of the income is unearned and to what extent it is earned.

(c) *Progressive death duties.* To achieve the same ends imposition of death duties is another urgent necessity. There are some people who are born with a silver spoon in their mouth. On the other hand, there is a vast majority which leads a down-trodden existence. While it is but fair that those who amass a fortune with the sweat of their brow should be left free to enjoy the fruits of their labour, there is no reason why their successors who generally have not made any efforts in the collection of the fortune should be permitted to enjoy a large unearned income. The state which creates the conditions favourable to accumulation of large fortunes has a rightful claim on at least a part of it. The fact that for the inheritors the legacy is unearned justifies the appropriation of a larger part of it by the State. The death duties must be made progressive according to the proximity of relationship between the inheritors and the testators.

(d) *Least taxation of necessaries and comforts and heavier taxation of luxuries.* For raising the standard of living of the peoples of India the new Taxation policy must have the ideal of no taxation of necessaries of life and comforts and heavier taxation of articles which are exclusively used by the richer sections of the community. By doing so the cost of living for the man in the street will be reduced, consequently the standard of living improved. If for fiscal reasons it becomes necessary to tax the necessaries and comforts of life, it must be borne in mind that such taxation should be the minimum possible.

(e) *Raising of the Tax-free limit which will not be uniform for bachelors and married men.* The standard of living is directly dependent on the purchasing power of an individual, and the Taxation policy should be so devised that purchasing power of the lower strata of the community is not reduced through taxation. From this point of view it can be suggested that the tax-free limit of income should be

raised to a higher level. In determining the tax-free level a broad distinction may be made between bachelors and married men. It is quite true that even a bachelor may have commitments and encumbrance while married people may have less of them. But in a large country like India where the joint family system still flourishes a system of allowances for every additional encumbrance will be both expensive and open to abuse.

But the permanent solution of the problem of standard of living lies not in increasing the purchasing power of the existing incomes only but in increasing the income itself. And, as we have seen already, that can be done only by stepping up production, both agricultural and industrial.

(*f*) *Free import of capital goods.* For developing agricultural and industrial technique first of all the state must facilitate imports of capital goods into India. In the new Taxation policy, therefore, for some time to come imports of machinery will have to be free from taxation.

(g) *Protection to industries.* Indian industries and Indian agriculture, again, must be protected against undue foreign competition so that the existing industries may be developed and new industries may be started. The policy of free trade has been responsible for keeping Indian agriculture and Indian industries in a backward condition. Whatever the natural advantages industries may possess, old established industries elsewhere can stifle the infant industries by offering a cut-throat competition. But in adopting a policy of protecion due care should be exercised, else worthless industries may come into existence at the expense of the consumers of their products. Before granting protection to any industry the claims of that industry should be carefully scrutinised by an expert body, and protection should be recommended only when definite conditions are fulfilled it. The conditions which exist today for

the grant of protection are sound and ought to be retained. The Tariff on the whole should be definitely protective, and the Government must realize that it is a moral duty of the state to actively support industries and encourage industrial protection as far as possible.

(*h*) *Revision of Trade Agreements.* In this connection it must also be pointed out that there is no place now for Imperial preferences in the Taxation policy of the country. The history of the operation of Imperial Preferences in India shows that they have worked against the interests of the country. Under the new Taxation policy trade agreements will have to be based on definite reciprocal advantages. Most of the other countries of the world are seized by a wave of economic self-sufficiency and their main object is to restrict their imports in order to protect their national interests. "Even the most advanced industrial countries have resorted to agricultural protectionism of extreme type. At the same time all these countries have adopted ingenious devices to push their own goods in foreign markets."[5] Through revised trade agreements our trade and industries must be safeguarded against the danger of quotas, exchange control, clearing agreements, Tariff barriers etc. India should also take effective steps against countries which discriminate against Indian goods.

The new Taxation policy, however, should not countenance giving up of lucrative sources of tax-revenues merely on sentimental grounds. Abolition of salt tax and the introduction of prohibition in the provinces are unwise steps from the financial point of view. No one can deny the desirability of making salt tax free and stopping the habit of drinking. But all the reforms cannot be undertaken simultaneously. First things must come first. Relief from the Salt Tax and Prohibition can wait for

5. R. D. Tewari, *Modern Commercial Policy*, pp 458.

some time ; there are other reforms which are more pressing e.g. medical relief and education. With the income the Government was having from the Salt Tax and the Excises these reforms could have been taken up immediately. In the absence of these sources of revenue the reforms are bound to be delayed for lack of funds. It is well known that bitter pills have to be swallowed to cure a disease, and those who are responsible for formulating a Taxation policy for the country must remember that for getting rid of larger evils it, sometimes, is necessary to put up with smaller evils.

ABOLITION OF ZAMINDARI

By SARDAR M. V. KIBE, M.A., M.R.A S., F.R.S.A.

Indore.

No word is more abused than the expression Zamindari. It is an institution, in its real sense, brought into existence by the foreign invaders who entered India from the North-Western Provinces. These nomadic hordes, who had no time to settle in a place but were always engaged in conquests to supplement their home resources which were never enough to feed their growing population, introduced middle-men to collect revenues from the tillers of the soil.

India, throughout its length and breadth, had the system of village governments. When foreign invaders came, the head of the village Panchayat made himself responsible for paying a tribute, sometimes assessed by the invaders on the revenue and at others what he found was enough to satisfy the conqueror and discharged the levy, after distributing the amount among the tenants in the villages. Wherever this foreign rule prevailed the system found its root, so much so that when the Maratha Empire spread to those parts where this system had prevailed, Tanka, Chouth or Sardeshmukhi, or all of them, were levied. In other parts of India where there was indigeneous rule, as in the parts mostly south of the Narbada, the relations between the State and the cultivators were direct.

There were introduced other sorts of middle men, called Istamurardars, Ijardars, Tankedars, who stand between the cultivator and the state, in the shape of overlords, such as Istamurardars, who had a permanent settlement of the rent with the state. Ijardars, whose rent was fixed for a number of years, and Mulguzars, who also received a fixed amount for

collection of the revenue on receiving a percentage on it. The conquerors from the South contended themselves, more or less scrupulously, to receive the assessment levied by them.

When, however, the East India Company became possessed of the territories in Bengal, Bihar, Orissa and the Madras Presidency, which were devasted, Lord Cornwallis made a permanent settlement with the middlemen, which was then advantageous to the company and which above all freed it from the anxiety of the precarious revenue. It is, however, this system which has clouded the issues of the subject The recent Bill in the Madras Legislature, which may become an Act, is a drastic example of the retributive spirit caused by the permanent settlement of Lord Cornwallis.

The above consists in bringing under the term Zamindars, persons who are not middlemen but have been given the right of enjoying the possession, revenue and mastery of the land, in the same degree as the state enjoyed, subject to certain levies by the state such as an annual payment to it, fixed or in proportion to the revenue realised or estimated, or death duties or a tithe on account of services to be rendered or the military service and such other things.

Under these catagories come portions of territories consisting of a village or villages down to plots of land, on account of relationship with the ruler such as younger sons or for the services rendered to the state on religious grounds, for the maintenance of temples or charities or for the maintenance of a person for his eminence in learning or piety either to last till his death or to be continued hereditarily. Under this catagory come Jahagirdars, Saranjamdars, borrowed by the Marathas from the Musalman Kings and Emperors and invaders. They are in no sense of the term middlemen. The smaller holders of land among them themselves cultivate the land while the bigger ones deal with their tenants.

When conquering Mughals' territories, the English found a class of holders called Zamindars whom the Mughals had created for the same reasons which led Cornwallis to create this class. There, however, were families which had been the owners of the land and cultivators of the soil, for generations but having been subdued agreed to pay a portion of the revenues, collected as owners, to the state, either fixed permanently at a figure or varying in proportion to the collection of the revenue fixed or realised. The Marathas regularised this system by levying their revenue taxes on the Province such as Malwa, through the Mughal Subhedar, or when they themselves assumed this function, as illustrated by the title of Subhedar bestowed on or assumed by Malhar Rao Holkar, the Founder of the Holkar Kingdom, or directly through the Zamindars who were formerly Rulers but conquered by the foreign conquerors. Several such families exist even in the Northern parts of India, who enjoy the possession of villages or lands or a cash share in the revenue. Under the Maratha Rule they kept valuable records and rendered other services. Under the British system this has been done away with, although the emoluments have been continued.

In the reformist zeal there is raised a voice, yet small in the country, to do away with the middlemen in the collection of revenue. This is a matter on which much might be said on both sides. But when it turns into a revolutionary spirit, cries for the abolition of all sorts of holders of of the soil, it does violence to the traditions and the ancient civilisation of India on which foundations the society is built. Creators of holdings, which are spread all over India, as have been described, as not coming under the catagory of middlemen, had been given solemn promises, which have been perpetuated and observed by successive rulers of the country to whatever creed and caste they belonged, that grantees will never be deprived of them, and if

anybody does dare to do so, he will be sent to hell for generations. Inscriptions have been carved on stones to such effect. Grants have been enshrined on copper plates, or gold plates even.

It is another matter to say that the size of holdings of cultivators should be fixed on economic lines or co.operatively cultivated, or even cultivated on the collective basis It is, however, no alternative to the abolition of ownership, which can only be brought about by the enforcement of the communistic doctrines. Even socialists need not interfere with ownerships. The principles held by them are not incompatible with the private enjoyment of incomes, even if the cultivation of the land be regarded as an industry, which may be nationalised. In the first place it is such a vast and distributed industry that the old system of recovering a portion of the revenue, whether as a rent or tax, by the state, is only feasible. The socialists must be satisfied with levies, contracts, management and regulation of transpart. Even the control or nationalisation of the means or system of production, such as the provision of manures, sowing of particular crops, stores, fixing of maximum or minimum prices, cannot though somewhat trespassing upon private rights, do not and need not interfere with private ownership. It is true that such owners cannot be the tillers of the soil, but for the matter of that even a socialistic state will not be in that position. After all it will have to use its beaurocratic machinery for the purpose. The owners of territories, villages or lands can be brought under the same control as that of the beaurocracy.

The Zamindari system is in contrast with the Rayatwari system. There is no ground for holding that in the former, the state is not the owner of the land, even in the permanently settled Zamidari system. Both the systems are employed by the state for collecting the revenue. In the

former the Zamindar bears all the expenses of collection and after keeping a proportion of the income surrenders the rest to the state. In the Rayatwari, the state settles the revenue with the cultivator direct and bears all the expenses of collection. In both areas the state has to maintain law and order and be responsible for other matters of the welfare of the subjects. As far as nationalisation is concerned, the Indian economy has always been based on socialistic principles. The modern socialists have not advanced in the application of the principle. They desire the nationalisation of the agricultural industry. But the question is what after all are the means of achieving it.

There is probably a case for doing away with the permanent settlement with the Zamindars. But there is the other side to the question. They have generally been benefactors of the society as may be witnessed by their contributions to the public welfare ordinarily and in times of distress in Bengal, Bihar and Orissa, Madras Province and elsewhere too. On the other hand there are proposals to give longer terms of the settlement to the tillers of the soil in Rayatwari tracts. There have crept in, and will continue to do so, abuses in both the systems, as far as the actual land labour and its improvement is concerned, in both the Zamindari and Rayatwari territories. Various laws have been enacted in the former for the protection of the tenants and in the latter for recognising the rights of the actual cultivators. Only the doing away of the Zamindari system will not help land labour. On the other hand nationalisation, with its concommittant beaurocracy, may have depressing effect on the industry, without the ruthlessness and thoroughness practised in Russia. But the sound warning of the old economists like J. S. Mill, that "give the ownership of a rock to a man and he will turn it into a garden", has also to be remembered, as well as the fact that the experiment in Russia is not very old,

The fact cannot be ignored that the Indian social disposition is ancient and there has been continuous progress in it, with some inevitable setbacks, in the course of time. But on the whole the fact remains that inspite of foreign invasions and political upheavals the land revenue system has substantially remained the same.

One of its sanctified features is the keeping up of the promises of previous rulers as regards the alienations made by them. Their purposes have both been religious and secular, as is evidenced by documents not only written on paper but for permanancy carved on stones or copper plates, coming down from centuries. Such grants have been almost scrupulously observed and continued by successive rulers. These have expired generally on account of the extinction of the family of the grantee, or owing to the fanaticism of alien rulers, but even Aurangzeb did not always resort to it, or on the obliteration of the institutions for which the endowment was given. As for, instance, by the disappearance of the religious structure or the impossibility of continuing the secular purpose such as a hospital or school and sometimes by the inexorable law of succession and partition. To spite an enemy, one should not cut his nose but should apply remedies for doing away with the evils that time allows to creep in.

It will be doing violence to the traditions, civilisation and culture of India to ignore the distinction between the methods of collecting revenue and the alienations made for specific purposes by former rulers or persons competent to do so, in the zeal and under the impulse to do away with Zamindars, and in pursuit of it the class of Jahagirdars, Saranjamdars, Inamdars, endowments for the purpose of maintaining charities, temples or charities huddled together. In a Revolution too the principle of reform should be observed for the good of the state.

INDIA'S FOREIGN TRADE

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The most distinguishable feature of India's foreign trade in the British rule has been the excess of exports over imports, which has been due to the payment of salaries and pensions of the British officials civil and miltary and to the invisible imports in the form of shipping charges, insurance premia, interest on and repayment of British capital invested in India and education expenses of our youngmen in U. K., etc. Our princes made pleasure trips to Europe which cost the country a handsome amount annually. The establishment of peace and order with the practical completion of British conquest of India by the middle of the last century, and the improved means of communication and transport, particularly after 1869 when the Suez Canal was opened, accelerated the pace of India's foreign trade. Less valuable and bulkier articles began to pass through the Suez. Our ports were joined with the hinterland by railway lines which encouraged the export of raw materials and foodstuffs from the country and the import of cheap, standardized, machine-made goods of Great Britain into the country. The railway rate policy and the free trade doctrine further encouraged these tendencies.

During the First World War the country witnessed an abnormal rise in prices, fall in the quantum of trade, both import and export, cessation of exports to or imports from enemy countries, rigorous control over export trade, fluctuating exchanges, shortage of freight owing to the elimination of enemy tonnage, heavy risks and charges due to the activities of sub-marines, and capture of the Indian market by Japan and U. S. A. The Pacific Ocean was, however, safe and Japan and

U. S. A. were both friendly countries. Imports from Great Britain and other European countries were replaced by those from the Eastern countries.

The signing of the armistice was followed by a short boom (1918-20) due to the shortage of supplies in all countries. With the removal of restrictions on trade and shipping, India's foreign trade, both export and import, increased considerably. While there was demand for Indian goods in the European markets, we placed heavy orders for machinery and consumer goods in Great Britain and other countries not only to rehabilitate our worn out plants but to expand the existing work. The Tata Company launched their expansion scheme in 1917 and the Railways placed large orders for wagons and loco-motives. Indian imports were considerably en-couraged by the rising exchange rate which touched 2 sh. 11½ d. in February 1920. Attempts to stabilise the rupee at 2 sh., according to the recommendation of the Babington-Smith Committee, proved futile and the precipitate fall of exchange resulted in heavy losses to Indian importers. The Secretary of State for India issued Reverse Councils to check the fall but excepting a heavy loss to the exchequer it could not give the needed relief to the trade.

The next two or three years were a period of adverse balance of trade for India. The fall in the purchasing power of the European countries and an unsatisfactory monsoon of 1920 were responsible for reduction in our exports. On the contrary our imports continued to expand with the result that there was a heavy balance of trade against India in 1920-21 to the extent of about Rs. 80 crores which continued into the next year when it amounted Rs. 34 crores. The year 1922-23 witnessed a re-covery in our trade and we had a favourable balance of trade to the extent of about Rs. 70 crores. By this time the foreign exchanges had established and the credit position of the European countries had

improved with the settlement of the reparations question by the Dawes Scheme of 1924.

The next five years were a period of recovery for the world trade and the year 1928-29 was a record year both for our imports as well as exports. Then followed the economic depression which started in America but soon swept over the whole world. In this period every country put restrictions on free movement of trade and the quantum of world trade declined very considerably in the next quinquennium. A current of aggressive economic nationalism was visible everywhere. Bilaterism, quota restrictions, imperial preferences and trade agreements were the common features of this critical economic period.

India granted Imperial Preference to the British steel over the Continental steel in 1927, and to the British cloth over the Japanese cloth in 1930. The Ottawa agreement was signed in 1932 and was forced on the country inspite of a vehement opposition in the Legislative Assembly. Large exports of distress gold and silver were made in this period to balance our trade. In 1931 England went off the gold standard which served as a signal to other countries to depreciate their currencies. The year 1934 may be said to be the beginning of recovery of trade and business activity after the depression. But it was followed by a little recession in the autumn of 1937 which spent itself by the end of 1938 or towards the beginning of 1939. These have been the ups and downs of our foreign trade up to the outbreak of the Second World War in September 1939.

The War gave new hopes to Indian traders and industrialists to make fortunes. They took their cue from the first war when, within a short time of the opening of the hostilities, prices reached dizzy heights. This time the Government was more vigilant. They passed on Anti-Profiteering and Hoarding Act which checked the buoyancy of the markets. After a spurt of about 3 months the prices

steadied down at somewhat higher levels. Our foreign trade did not suffer in 1939-40. Rather it made improvement, both in value as the quantum, over the figures of the previous year. The Government imposed all kinds of restrictions on exports as well as imports and an Export Advisory Council was set up in May 1940 under the chairmanship of Sir A. R. Mudaliar, the then Commerce Member of the Viceroy's Executive Council. The allies were fast losing ground, and practically the whole of Western Europe fell at the feet of Hitler with the capitulation of France in June, 1940. India lost the European market in cotton, groundnuts, oilseeds, jute and jute manufactures, coffee and hides. This loss of trade was estimated at Rs. 30 crores annually. To get alternate markets a mission, known as the Gregory-Meek Mission, was sent to the United States of America in July 1940. The report of this Mission was not very encouraging as U. S. produced surplus cotton and was getting other supplies either from within or from South America. However, possibilities of increased exports of manganese ore and mica were indicated by the Mission.

The situation grew worse towards the middle of 1941 when Japanese attitude was growing more and more hostile to the allies. Her assets were frozen in August of that year and on December 8, 1941 she invaded the Pearl Harbour. Japan was our best market for raw cotton and pig iron. About half of our exports of cotton went to Japan alone. Large stocks were accumulated in the country and at one time it looked to be the best and the cheapest investment in this country. However, through the activities of the Indian Central Cotton Committee, acreage under cotton was reduced and more land was utilised for production of foodgrains. Our cotton mills used increasing quantities of Indian cotton and it was only in 1943-44 that the situation eased itself. The jute

industry has worked by fits and starts. The demand has not been steady. Hides and skins have been mostly used by our growing leather industry. Exports of oilseeds and oil cakes also declined to negligible quantities. Only tea from the old list of principal articles of exports, has always been in request during the war period and India has supplid very substantial quantities of it to the allies. The following table will give the reader an idea of the extent and nature of our foreign trade before and during the war-time:—

Figures in Crores of Rupees

	1938-39	1942-43	1943-44	1944-45	1945-46
Imports	152 33	110·44	117.77	200.98	240.61
Exports including foreign merchandise	169.19	194.96	209.99	227.73	263.86
Total Foreign Trade	321 52	305.40	327.76	428-71	504.57
Balance of Trade	16.86	84.52	92.22	26.75	23.25

Nature of Trade for the Same Period.

(In crores of Rupees)

IMPORTS

	1938-39	1942-43	1943-44	1944-45	1945-46
Food, drink and tobacco	24.00	7.62	7.08	18.84	22.20
Raw materials	33.18	61.93	64.08	117.26	116 60
Manufacured articles	92.76	49.54	44.94	62.47	97.50

EXPORTS

	1938-39	1942-43	1943-44	1944-45	1945-46
Food, drink and tobacco	3.923	47.23	47.25	49.55	58.40
Raw materials	73.22	42.76	44 63	45.34	84.80
Manufactured articles	47.57	95.37	104.79	112 86	114.70

On a critical review of the nature of our foreign trade during the war years we find that our improts of manufactured articles declined from Rs. 92.76

crores in 1938-39 to only Rs. 44.94 crores in 1943-44. But since then it has steadily improved so much so that in 1946 (Jan.-Dec.) it reached the unprecedented figure of Rs. 145.41 crores and comprised 55.4 per cent of our total import trade on private account. Another feature to note in the import trade is the appreciable increase in the value of imports of raw materials. But this tendency has been checked and in 1946 our imports of raw materials amounted to only Rs. 76·60 (29.2% of the total imports) as against Rs. 128·05 (or 54·0% in 1945). The first item on the list, i. e., food has been the most important item in the last two years. But the figures given above do not include import of food on Government account. It is estimated that in 1946 our import of foodgrains on Government account were over Rs. 100 crores and probably the figure will be still higher for 1947. Thus we may conclude that excepting the import of foodgrains on Government account our import trade is returning, on the whole, to the pre-war pattern in which India imported more of manufactured goods than food or raw materials.

On the export side India has definitely gained in the export of manufactured articles, because of cessation of supplies from Japan and the European countries. Further India has not been able to export appreciable quantities of foodgrains and raw materials. The most important items on her export list were raw and waste cotton, jute. oilseeds, hides and skins and tea. Excepting tea, we have lost ground in every other item. On the other hand exports of cloth has increased over the pre-war figure. In fact, it would have gone up much higher had we been able to step up our production. Therefore, it may be concluded that unlike the import trade, the export trade has not yet reverted to the pre-war pattern.

Direction of Trade—During the War years there were considerable changes in the direction of India's

foreign trade. With the occupation of European countries by Germany in the first year of the War, trade with most of the European countries stopped except through Government agency. The Pacific countries were over-run by Japan in 1942 and, therefore, our trade in the Pacific was also disturbed. However, India's trade with Central Asiatic countries, United Kingdom, Australia, Canada, Ceylon, South and East Africa and the United States of America increased very considerably. We had a very large favourable balance of trade with the Empire countries and the U. S. A. upto 1945. During 1946 our imports from Empire countries exceeded our exports so much so that the favourable balance of Rs. 10,10 lakhs of 1945 was turned into an adverse balance of Rs. 8,20 lakhs in1946. Another notable change in the direction of our trade in 1946 is the negative balance with the United Kingdom to the extent of Rs. 30,84 lakhs, compared to a positive balance in 1945 of Rs. 13,59 lakhs. It is due to cent per cent increase in the value of our imports from the United Kingdom in the year 1946 over the previous year. In the case of non-Empire countries the important change is the reversal of our balance of trade with the United States of America. In the year 1946 we had a favourable balance of Rs. 23,66 lakhs as against a deficit of Rs. 20,36 lakhs in the previous years. This is a very satisfactory position in our foreign trade.

The Hon'ble Mr. C. H. Bhabha, Commerce Minister in the Central Government, observed at the meeting of the Export Advisory Council at Bombay on the 8th November 1947 that 'if India were to continue to import essential food requirements and also the minimum requirements of capital goods, we will require another 125 to 150 crores of rupees per annum of foreign exchange in the course of the next few years. This figure does not, of course, take into account the loss of our export

trade as a result of the partition, which has already been placed at about Rs. 25 crores. To this figure should be added the charges to be paid on account of our invisible imports—which we can place roughly at Rs. 45 crores. The total of these figures comes to about Rs. 200 to Rs. 225 crores. This is a measure of the deficit in our international balance of payments"

How then are we to earn foreign exchange to make these payments ? Partly we may rely on our accumulated Sterling Balances but mainly imports must be paid for by exports It is why Mr. Bhabha urged the necessity of finding out new articles and new markets for building up the country's export trade. But we may frankly state that no scheme shall prove successful unless we increase our agricultural and industrial production. This is the greatest handicap in our economic system at present. Our production of industrial goods has declined by about 25 per cent in the year 1946 over 1945. We are deficient in food even although every three persons out of four are engaged in agriculture. The best quality cotton and jute are produced in Pakistan and India shall import for some years to come over 10 lakh bales of quality cotton and about 50 per cent of jute from the sister Dominion. The remedy lies in increasing production in all sectors of our economy.

As regards the future of our foreign trade we can only say that it depends not only on our own economic dovelopment ment but on the economic development of the backward countries. The International Conference on Trade and Employment has drafted a Charter for international trade and full employment of the nationals of all countries, with special reference to the depressed areas. But the work of international institutions like this primarily depends on the spirit and integrity of purpose of the leading countries.

In this connection the attitude of U. S. A. is the most important. Without her aid and liberal policy it is almost impossible to rehabilitate the war-ravaged economies of the European and Asiatic countries. Further there is an apprehension that world trade may be clogged and cut up into zones owing to the growing misunderstanding and suspicion between U. S. A. and U. S. S. R. If this tendency is not checked it will lead to the revival of inter-war period economic jealousies and trade and tariff restrictions. Every thing is in a fluid state at present and the future trend of World Trade cannot be anticipated with accuracy owing to a number of uncertain factors.

India has a bright future if she can develop her economic resouces and plan her export trade. An organization on the lines of the British Export Trade Research Organization is necessary to give a drive to our export trade. At present our production is insufficient even for our domestic needs. But it is necessary that we must spare some proportion of our products for the foreign markets and stand by the foreign consumer in his need if we want to retain his goodwill and custom when normal conditions return. Japan and Germany have not yet been able to recapture their lost markets, and probably it may not be easy for them to regain their lost ground. India can easily acquire some of their markets in Asia and Africa, if our export trade is properly planned. We are of the opinion that the Sate should rigorously control imports and encourage exports of not only staple articles but of new lines for which demand has to be created in foreign markets. The offices of Trade Commissioners and consuls should study the demands of our actual and prospective customers and pass on their researches to the trade and industry in India. An organization of the type of Indian Commercial Corporation (like the U.K.C.C.) should be set up under State patronage.

In the modern world marketing is being increasingly centralised under active State guidance and control. The United Kingdom Board of Trade is a living example of it. Wheat from Canada and diary products from Denmark are purchased by the British Government on a national scale. Again, every industry should organize an Export Corporation which should carry on researches into the special problems of that industry. There has been little contact between the industrv and State in the past except during the War preiod. Now that the country is free from the foreign yoke there should develop the closest co-operation between the two. A permanent Board of Trade should study the cost and price structures of important commodities that are meant for the foreign market. It must also ensure quality and a fair price to the foreign consumer. All this can be possible only when the State takes a lively interest in organizing the export trade of the country.

PLANNING OF INDIA'S IMPORT POLICY

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The 15th of August, 1947, marks the advent of a new epoch in the history of our political and economic progress. The age-long shackles of slavery which so far held at bay our nation's onward march are now breaking asunder. We are at liberty to pursue those policies which we deem most conducive to the economic regeneration of our country. We can now foster our industries and divert the course of our foreign trade into those channels which we think proper for our nation's prosperity. It is therefore the most opportune moment to formulate a well-organized and systematic import trade policy for our country.

Before we take up the question of reorientation in our import policy it is necessary to have a glimpse into the import trade of our country during past years and the policy which the Government of India has followed in relation to that. Certain significant features of our import trade have been as follows :—

(1) That India has been dependent for the major portion of her imports upon United Kingdom which supplied as much as 69% of India's imports at the beginning of the present century. This percentage has greatly declined in recent years. Still it was as high as 27% in 1942-43.

(2) That the major portion of the imports has consisted of manufactured goods. In 1938-39, manufactured articles formed 61% of the imports. This has been partly due to the low level of industrial activity in this country and partly because of Britain's economic Imperialism.

(3) That due to the non-existence of national shipping and insurance services and the liability of

the country towards Great Britain on account of home charges etc. there were considerable amounts of invisible imports which turned the otherwise favourable balance of trade into an unfavourable one.

As regards the existence of any systematic import policy, is concerned we can say that there has been hardly any. In the period before the World War I there were practically no duties on imports. 'Laissez faire' was the watchword of the Government. During the World War I, however, the financial needs of the Government compelled her to impose duties on certain classes of imports. The aim, however, was not to change the shape of import trade, but merely to augment the Central Exchequer. After the grant of the so-called Fiscal Autonomy in 1921 we find a slow but perceptible change in the Government's attitude. During the twenties and the thirties, the policy of Discriminating Protection adulterated with Imperial Preference had its day. Steel, cotton and a few other industries were afforded protection. With the growing spirit of nationalism and Swadeshi the Government had been forced to follow a bolder policy. Still it can be said without fear of contradiction that the import policy of the Government of India was not in keeping with the industrial needs of the country and that in most cases the Government was merely tinkering with the problem.

With the outbreak of the World War II, the question of having a well-knit import policy for the country was shelved as the pre-occupation of foreign countries with war had led to a gradual cessation of the flow of imports into India. The exports from India increased and the widening gap between exports and imports was reponsible for a rising favourable balance of trade which reached the peak point of Rs. 92 crores in 1943-44. In 1944-45 the favourable balance fell precipitously to Rs. 27 crores and in the early months of 1945-46 an unfavourable

balance of trade was being expected. The position however improved in the latter months. Still the exports (excluding re-exports) could hardly balance the imports. During the last three years imports have rapidly increased from Rs. 118 crores in 1943-44 to Rs. 240 crores in 1945-46, while the exports have increased from Rs. 200 crores to Rs. 240 crores only during the same period.

The deteriorating position of trade opened the eyes of the Government to the need of having an organized import policy. The Government called the meeting of the Consultative Committee of Economists in August, 1946. A Trade Policy Committee was also formed which met for the first time in September, 1946. Soon after this the Government outlined its policy with regard to trade and tariffs. The foundation of an independent import policy was thus laid soon after the advent of the Interim Government. It now seems crystal clear that our foreign trade in general and imports in particular would have to be more directly under State control in future In almost every line of economic activity the role of the State is assuming greater significance every day. This is an age of planning and there is a growing belief that trade and industries, if carried on purely through private enterprise, are sure to be directed by personal profit motives and the larger interests of the nation as a whole are likely to be pushed to the background.

During the second half of 1946 and the first half of 1947, the Government of India had followed a more or less liberal policy with regard to import trade. During this period there has been colossal national extravagance, In the first five month of the trade year 1946-47 we spent 77 lakhs of rupees on the import of toilet goods alone. Our investment in fountain pens in the calendar year 1946 was of the order of Rs. 1.2 crores. The frittering away of our meagre foreign exchange resources by such

means at this critical juncture cannot be justified on any canon of sound commercial policy. The nation is starving and needs large imports of food to keep body and soul together. Still many merchants had, under the liberal licensing scheme, applied for fantastically large quantities of goods and received licences even though they had no previous connections or contracts with foreign suppliers.

Import Control. The result has been that in the first six months of the trade year 1946-47, there is a large adverse balance of trade with United Kingdom, which is indeed a novel feature. The Government of India had therefore to drastically curtail the scope of Open, General Licences for imports from U. K. Imports of certain articles have been prohibited *e.g.* confectionary, sugar candy, fruit juices, wines, cigars and cigarettes, fountain pens, glassware, cycles and motor-cars. Out of the accruals of foreign exchange through export trade very little balance is at present available for merchandize imports, due to huge imports of foodstuffs and Government stores and charges which have to be met on account of foreign insurance, shipping and bank commissions.

It is therefore absolutely essential that a strict control be maintained on merchandize imports. We must bid good bye to luxuries at least for sometime. Further there is a necessity of negotiated reduction of prices of food imports since the prices that foreign countries are now charging for food are really fabulous *e.g.* the price of an Australian bag of wheat weighing 480 lbs. which was about 34 s. upto the middle of October, 1944, varied between 68 s. and 88 s. in 1946. No doubt there is a shortage of food the world over, but our case is really pathetic. At the World Cereal Conference which met in Paris on 9th July, 1947, it was found that the total deficit of all the countries amounted to 18 million tons out of which India's deficit figured at 4½ million tons *i.e.* 25%. Until now India was getting approximately a

million tons of cereals from Pakistan areas The Government of Pakistan have now expressed their inability to supply us foodstuffs and we have to beg for food in other countries.

India's Future Needs. Let us now look to the requirements of our country in the years ahead. Firstly, as is evident, is the problem of food imports which will continue to bother us at least for next five years. We will require large foreign exchange resources specially dollars to prevent starvatoin in the country.

Secondly, the foremost need in future will be of capital goods. There is an urgent necessity of replacing the existing machinery in most of the mills in practically every industry. Due to over-work during these war years the efficiency of industrial plants has greatly declined. Moreover, if India is to industrialize herself on any large scale and new enterprises are to be established under the various Central and Provincial Governments *e. g.* jute, cotton, hosiery and paper mills, iron and steel foundaries, cement works, chemicals and plastic industries, there will be a huge demand for machinery, tools, manufacturing equipment and millwork. As we are not in a position to produce these goods internally, attempts must be made to obtain them from foreign countries. The trend towards larger import of these goods is already discernible in latest trade figures. Imports of machinery and millwork in the calendar year 1945 amounted to roughly Rs. 20 crores which were highest in the last six years. In the first half of the trade year 1946-47 these imports figured at 15 crores *i.e.* the annual rae on this basis will come to Rs. 30 crores. Difficultty is, however, being experienced in procuring these goods and a large portion of our demand has remained unsatisfied. The reality is that even now production in United Kingdom and United States of America, the two main sources of supply, has not been large

enough to give us surplus of machinery and tools. The demand for these goods is coming from every nook and corner of the world while these countries have first to meet their own domestic needs.

Uptil now we have been largely importing these goods from United Kingdom. But there are many items for which U. S. A. is practically the only source of supply e.g. larger excavating machinery, heavier crawler tractors, deepwell turbine pumps etc. These things we need for our irrigation and power projects and roadbuilding. In case of other machines too American goods though usually costlier have got greater relative efficiency. There is yet another way in which the U S. A. can help us. She can provide facilities for higher technical training of Indian technicians and engineers. But, for obvious reasons, the American industrialists are reluctant to give this type of training. The six-year old India Supply Missions in Washington is doing its best to meet our post-war needs. Recently this mission has been reorganized and its activities have been expanded. Let us hope that it will succeed in inducing Americans to sell us capital goods. For the time being it will not be difficult for us to get foreign-exchange. In the first half of 1946-47 we exported goods worth Rs. 39 crores to U. S. A. and imported goods worth only Rs. 21 crores, thus leaving a large favourable balance to our credit. However, in future when our needs increase, it is clear that despite all fond hopes of an efficiently working multilateral world trading system, dollar will be a scarce currency for us, and the pull of our London balances will be a powerful factor favouring recourse to United Kingdom. Moreover, British industrialists have expressed their willingness to supply us machinery. They say that they would be proud to help India in her efforts to industrialise. In addition we can also get some supplies from Czechoslovakia, Canada and Australia.

Thirdly there is the need of consumer goods. We must restrict their import as much as possible. The

Britishers would like to dump luxury goods in our country. But we should refuse to buy them. Instead we should try to produce the consumer goods in our own country. It is true that our countrymen will feel the scarcity of goods which are in their everyday use like fountain pens, stationery, hosiery, knitted fabrics and millinery, yet it is necessary in the interests of the nation as a whole that they should not mind this temporary difficulty.

Fourthly we require certain classes of raw materials. The woollen and silk industries mostly depend on foreign imports of raw materials. During World War II imports of raw silk have fallen but those of raw wool have increased 3½ times. We will have also to import finer quality cotton from Egypt and Sudan. Further, with the division of the country we will need raw jute and raw cotton for our jute and cotton mills from Pakistan areas. In the interests of our industrial development imports of raw materials should be encouraged. These imports have assumed great importance in our imports.

The following table shows the composition of India's import trade (in percentages) in certain years :—

YEARS / GROUPS	1938-39	1943-44	1944-45	1945-46
Food ...	15·7	6·8	9·3	9·0
Raw Materials...	21·7	63·8	58·3	48·3
Manufactured Articles	60·8	38·0	31·1	40·4

The war-time achievement in India's import trade was quite satisfactory as its composition assumed the pattern of any advanced country's trade. Imports

of raw materials rose from 22% in 1938-39 to 58% in 1944-45 and imports of manufactured goods declined from 61% to 31%. But this advantage is gradually slipping away. Percentage of raw materials in imports has declined from 58% in 1944-45 to 48% in 1945-46. In the first half of 1946-47, there has again been heavy decline in raw material imports As compared with the corresponding period in 1945-46 their value declined from 68 to 35 crores of rupees. The imports of food on the other hand have continued to increase, which is not a welcome phenomena. Their value rose from Rs. 7 lakhs in 1943-44 to Rs. 22 lakhs in 1945-46.

Control of Foreign Exchange. Early in 1947 an Exchange Control Bill was brought before the Central Legislature. Originally it sought to control foreign exchange transactions as a permanent measure. The Select Committee, however, reduced its application to 5 years in the first instance and for another three years if necessary. In the course of the debate on this Bill Mr. Manu Subedar expressed his fear about the possible misuse of power under this Bill, but he was glad that India had asserted the right of financial independence by passing it. The passage of Exchange Control Bill was preceded by a Bill to continue control on imports and exports for a further period of three years.

The imposition of a rigorous control on foreign exchange is absolutely essential at the present juncture. There are two enervating problems for the country : firstly to control the expenditure of foreign currency that are in short supply and secondly to avoid the disturbance to economic recovery during the period of transition.

The problem of shortage of currency has become very acute as our sterling balances blocked in London are not freely releasable and convertible. We are getting rather niggardly allocations out of these frozen credits. According to the Indo-British Interim

Settlement signed on 14th of August, 1947, £ 35 million will be released out of the Blocked Balances Account between July 15 and December 31, 1947. A further sum of £ 30 million will be available as reserve to meet temporary deficit in India's payment abroad. These releases shall be convertible into dollars because by the Anglo-American Loan Agreement, Britain had bound herself to make sterling freely convertible into dollars with effect from July 15, 1947.

Economic Crisis. Great Britain had to suspend the free convertibility of sterling on August 18, 1947, finding that her dollar resources were being rapidly depleted. However in the words of India's Finance Minister, Mr. Shanmukham Chetty, Britain's dollar decision "does not in any sense either abrogate or repudiate" the existing agreement on sterling balances. Therefore India is least affected by this factor upto the end of this year; after that she may be most affected. There are two great dangers which this financial crisis has brought in: firstly that Britain might go bankrupt and secondly that India might starve. Great Britain being our debtor, we are naturally interested in her solvency. British people are trying their best to increase production. They have aimed at a feverish export expansion and a drastic cut in imports through the new austerity import programme. British Government is all out to meet the adverse trade balance which is now running at the rate of £ 700 million annually though in February, 1947, when the Economic Survey was published, it had been estimated at £ 250 million only. Mr. Herbert Morrison rightly declared in the House of Commons, "Not only Britain, but the world must produce or perish.' The British Minister, Sir Stafford Cripps, uttered the following warning early in October, 1947 :—

"We have begun to dip into our reserve of gold and dollars, a reserve which is none too big and

which serves the whole sterling area ; unless therefore there is some new availability of dollars before long we shall be obliged upon further cuts. ....Other countries are faced with the same problem and indeed will not be able to feed their people......Take the problem of feeding India and Pakistan. The food may only be available in South America in which case it can only be bought for dollars."

The Government of India in contrast to this have done little to meet the fear of economic strangulation. Only recently they realized that economic crisis in India is as serious as in Great Britain. There has been an acute shortage of almost every commodity, an unchecked spiral of prices, increased cost of living coupled with labour unrest and falling production both in agriculture and industry and finally a short supply of foreign exchange. The need of the hour is that we must move the wheels of industry at the maximum possible tempo to produce more for home consumption and for exchange in foreign markets. Side by side we must do away with maldistribution. Addressing a meeting of the Southern India Chamber of Commerce recently, Dr. S. P. Mookerjee, India's Minister for Industries and Supplies, stressed the urgent need for speeding up production in the country. He admitted that there were a lot of obstacles like labour troubles, transport difficulties, want of raw materials, lack of machinery and in certain cases lack of technical personnel. "In any case," he said, "we should make this our immediate task—India must produce and produce all she can without any delay."

Tariff Policy. Keeping in view the existing industrial background, our tariff policy must be so designed as to give encouragement to imports of machinery and raw materials and discourage the imports of consumers goods. In the budget of 1946-47, some concessions have already been made in the

duties on imports of machinery and raw materials. These things may even be admitted free. On the other hand adequate protection should be provided to deserving industries. There should be a permanent tariff board, which should consider the cases of not only the war-born industries, but the fuller question of industrial expansion in a free India. The Procrustean bed of the triple formula must be scrapped now. The country's interests would be best served by a liberalization of the principles governing the selection of industries. Time is not far when cheap foreign imports will be flooding this country and our industries will be faced with stiff competition.

An Industrial Commission and a Fiscal Commisson should, therefore, immediately set about the tasks of gauging the possibilities of industrial expansion and formulating an appropriate tariff policy for the needs of the country to-day and to-morrow. In this respect we can take a lesson from Australian tariff regulations where the customs and import licensing regulations have been in force and industries have been classified into three categories according to the extent of protection required. The Government of India in contrast to this did not make any clear-cut pronouncement during the war and assumed a 'do little' attitude.

It is high time now that we should have a thoroughly competent and impartial tariff board, which must be a permanent body. Continuity of policy, consistent decisions and independence of judgment cannot be expected from an ad hoc tariff board. Dr. John Mathai, who has long been associated with Indian Tariff Boards, admits that these Boards had dilatoriness and tinkering as their weakest points and he has expressed himself in favour of a permanent Board of Trade for India. This new organization should periodically review the question of renewal. modification or withdrawal of protection. It should also take up the question

of commercial treaties and enquire whether Indian products are being fairly treated in foreign countries. If necessary it should express its opinion on the advisability of taking up any retaliatory action in certain special cases. The Tariff Board should deal with complaints regarding combination of manufacturers which may at some time be to the detriment of the Indian consumer. On the other hand when the Tariff Board is convinced that dumping is taking place and is likely to injure any Indian industry it should be quick to recommend the imposition of an anti dumping duty. Similarly, devices must be used to combat the import of bounty-fed goods and if necessary a system of quotas be adopted. The Tariff Board should keep itself in touch with the tariff systems of other countries and should annually review the working of protected industries in the country.

International Trade Charter. The question then naturally arises whether in view of the proposed International Trade Charter we will be able to resort to all these strict tariff measures. We have no desire to pursue a policy of economic isolationalism, for that is one quick way to financial Hara Kiri. Our aim is to maintain friendly trade relations with foreign countries. But we have to examine as to how far the objectives of the U. S.-sponsored International Trade Conference can be acceptable to us. The Indian Merchants Chamber has rightly pointed out that these proposals have failed to accord due and legitimate recognition to the needs of the agricultural and industrially backward countries like India. The principle of equal access to the markets and raw materials of the world cannot be accepted by us. It will give a severe setback to the already established industries and set afoot a retrograde movement as a result of cut-throat competition consequent upon the removal of tariff.

To consider these proposals a two-day session of the Trade policy Committee, presided over by Mr.

C. H. Bhaba, Commerce Member of the Government of India, was held in New Delhi on 19th and 20th of September, 1946. India's participation in the Internatienal Trade Conference was agreed upon subject to the following reservations :—

(1) That India should reserve the right to use all economic measures such as tariffs, subsidies etc. essential for the planned development of the country for the purpose of raising the standard of living and the real income of the people.

(2) India should have a mercantile marine large enough to enable her to carry her coastal and foreign trade.

(3) The importance of internal trade should not be over-shadowed by plans for the development of foreign trade.

(4) India should not agree to any system of voting in the international organizarion to be set up which would not enable the views of economically backward countries to influence international trade policies.

The need of guaranteeing a minimum amount of shipping to every country to allow international trade to be really free, was eloquently stressed at this conference by Sir Ramaswami Mudaliar.

In November, 1946, the Preparatory Committee of the International Conference on Trade and Employment met in London. Mr. R.K. Nehru, leader of the Indian delegation declared that India would not enter into long-term commitments affecting the development of her national economy without a careful study of the prospects. He arranged for amendments in the International Trade Charter as may befit development of, backward countries. The head of the Brazilian delegation aptly remarked at this conference that the expansion of world trade is

not an end in itself but a means to an end—the improvement, equalization and stabilization of the standard of living of the world's populations.

In February 1947, there was a joint meeting of our Tariff Policy Committee and Consultative Committee of Economists at Delhi for adoption of tentative plans in the matter of trade and tariff at the forthcoming World Conference at Geneva. The Commerce Member, addressing this Conference declared that whatever be tne difficulties of multilateral trade agreemenr there are at least three factors which will determine India's attitude :—

(1) Satisfactory solution of India's sterling balances problem must affect the nature and extent of concessions which India can concede.

(2) Relative difficulty of obtaining dollar which countinues to be a "hard currency" dictates the necessity of directing our exports to that country which can give us dollars with no pressing problems of re-equipment. The U. S. remain the only country that can supply India's urgent needs of capital goods for some time more.

(3) India's major problem is one of having to catch up with other countries far advanced in the industrial field. This implies a judicious control of both exports and imports. India should not therefore barter away its freedom to act in its best interests for the sake of a vague ill-defined international idealism.

There is still much truth in Dean Inge's dictum that the sheep's affirmation of faith in vegetarianism is useless if the wolves remain of a different mind. We need protection from dumping, bounty-fed and cheap foreign goods till our industries become strong enough to stand on their own legs. Even in U. S. A,

the biggest industrial country of the world, tariffs are still inordinately high. These should be reduced and America should allow free flow of capital and capital goods to needy countries without any racial discrimination. Great Britain on the other hand should abandon Imperial Preference. The big powers must shed their Imperialist designs if International Trade cooperation is to succeed. The industrially advanced countries too must realise that their prosperity depends on the well-being of the backward nations. Our attitude, however to the International. Trade Organization is amply clear. We shall farmulate our import trade policy. In accordance with our intrineic needs. We as a nation are anxious to ensure our industrial future and we cannot part with our sovereign power to adjust our tariffs in the best interests of our national economy. We are ready to have international cooperation, but not at the cost of our national annihilation.

NOTES

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